

APML Annual Report

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IMPROVEMENT OF THE AML/CFT SYSTEM AT THE STRATEGIC LEVEL

AML/CFT Coordination Body

On 12 July 2018, the Government of the Republic of Serbia established a Coordination Body for the Prevention of Money Laundering and the Financing of Terrorism (AML/CFT Coordination Body) in line with Article 70 of the Law on the Prevention of Money Laundering and the Financing of Terrorism (AML/CFT Law, Official Gazette of RS, Nos. 113/17 and 91/19).

The AML/CFT Coordination Body was headed by the Minister of Interior and Deputy Prime Minister Nebojša Stefanović until 4 July 2019 which is when he was succeeded by the Minister of Finance Siniša Mali, based on a Government decision.

In 2019, the AML/CFT Coordination Body analysed the current situation and coordinated the activities of various authorities and institutions, focusing on the implementation of Moneyval recommendations and FATF Action Plan for Serbia. It also discussed the 2014-2019 AML/CFT National Strategy Implementation Report, which it adopted and submitted to the Government for information. At the same time it initiated the development of a new five-year national strategy (2020-2024).

The AML/CFT Coordination Body comprises preventive and law-enforcement authorities and those relevant for implementing targeted financial sanctions (TFS) for terrorism and proliferation of weapons of mass destruction (WMD). Given the turnover of staff and status changes of some of its members and with the aim of expanding the AML/CFT Coordination Body membership with additional institutions, the Government amended the Decision Establishing the AML/CFT Coordination Body on 28 November 2019 to that effect. The AML/CFT Coordination Body now has 32 members representing 26 authorities and institutions and 2 secretaries¹.

The Administration for the Prevention of Money Laundering (hereinafter referred to as: APML) is represented in the AML/CFT Coordination Body by four staff members, three in the capacity of member and one secretary. APML is also represented at the National Coordination Body for the Prevention and Fight against Terrorism through the APML Director².

⁰⁾ <http://www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/sgrs/vlada/odluka/2018/54/2/reg>

¹⁾ <http://www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/sgrs/vlada/odluka/2019/29/6/reg>





National Strategy against Money Laundering and Terrorism Financing 2020-2024

Bearing in mind the NRA findings and 2016 Moneyval Recommendations, the AML/CFT Coordination Body decided on 1 October 2019 to develop a new, third so far, national AML/CFT strategy.

The AML/CFT Coordination Body prepared the working text for the strategy, and the Minister of Finance, as the Chair of the AML/CFT Coordination Body passed on 2 December 2019 a Decision Establishing an Expert Team for Drafting the National Strategy against Money Laundering and Terrorism Financing 2020-2024.

This Expert Team, headed by the APML Director, comprised 42 members representing 23 relevant authorities and institutions.

This is the third national AML/CFT strategy introduced by the Government of Serbia since 2008. The new strategy takes into account the outcomes of the previous two national strategies with the aim of further developing the AML/CFT system in Serbia with the aim of mitigating the risks identified in 2018 ML/TF National Risk Assessment (NRA), and taking measures which will be in line with FATF standards and which will successfully contribute to the AML/CFT strategic objectives.

Departing from the high-level objective, intermediate and immediate outcomes of the global system, the overall objective of the new AML/CFT Strategy (2020-2024) was formulated as follows: *Fully protect the economy and financial system of the Republic of Serbia from the threat caused by money laundering and terrorism financing and proliferation of weapons of mass destruction, whereby the integrity of the financial and non-financial sector institutions is strengthened through public-private partnerships and risk based approach, and safety, security and rule of law are contributed to.*

In formulating the overall objective, this strategic cycle aims to highlight the significance of active cooperation between the public and private sectors and of rule of law principles in achieving the strategic objectives.

Further elaborating the overall objective, the AML/CFT Strategy sets the following specific objectives:

1. Mitigate money laundering, terrorism financing and proliferation of WMD risk through continuous improvement of the strategic, legislative and institutional framework, coordination and cooperation of all AML/CFT stakeholders and international cooperation;
2. Prevent suspected proceeds from crime or funds intended for terrorism or proliferation of WMD, from entering the financial and non-financial sectors or improve their detection if already in the system;



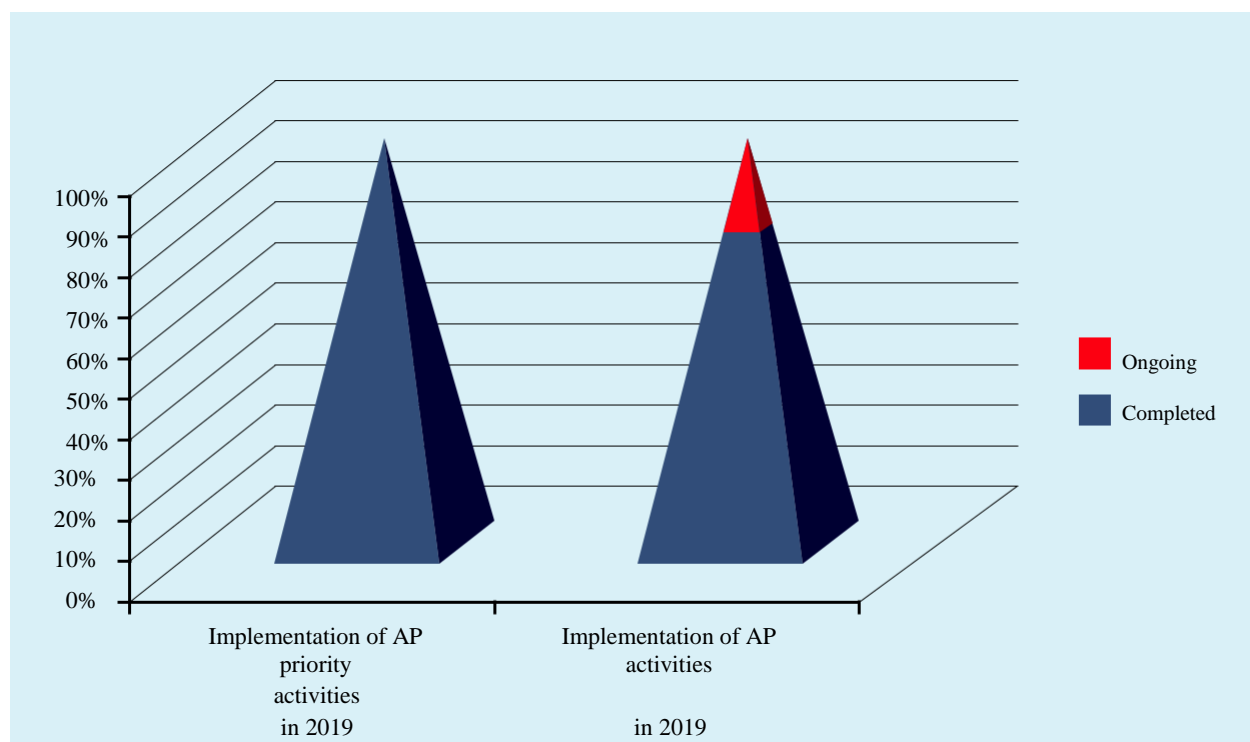
3. Sanction money launderers in an efficient and effective manner and confiscate proceeds from crime;
4. Detect and eliminate terrorism financing threats and sanction terrorist financiers.

Unlike the previous national strategy, which was divided into strategic themes and further on into objectives, measures and activities, the new AML/CFT Strategy now has four specific objectives (matching, to a certain extent, the strategic themes of the previous strategy). To achieve the strategic objectives, the new AML/CFT Strategy has an Action Plan comprising 108 action items falling under 14 measures.

Action plan for mitigating the risks found in the 2018 NRA

The 2018 ML and TF National Risk Assessment (2018 NRA) Report was adopted by the Government on 31 May 2018, and the Action Plan for mitigating the 2018 NRA risks on 12 July 2018. The AML/CFT Coordination Body (established on 12 July 2018) was tasked with monitoring and implementing the activities set out in the NRA Action Plan.

Almost 90% of the Action Plan items have been addressed. All the priority activities have been completed, whereas the activities which are ongoing in nature (trainings, reporting, etc) are considered still to be in the process of implementation.





Guidelines for establishing a consolidated methodology for reporting on and tracking of ML/TF cases

The Guidelines for establishing consolidated methodology for reporting on and tracking of ML/TF cases were adopted at the Government session of 3 May 2019.

One of the 2018 NRA Action Plan priority items was to introduce ML/TF statistical reporting guidelines for all AML/CFT institutions. To ensure coordination and operational consistency, and avoid possible discrepancies, a decision was made in the 2018 NRA process to develop guidelines for authorities to keep record of ML/TF cases and ensure consistent reporting.

The Guidelines ensure relevant data is recorded and maintained. They also improve information exchange, making the assessment of the AML/CFT system effectiveness more reliable and helping the NRA process.

A software application is being developed for recording and monitoring ML/TF cases.

Guidelines for identifying the beneficial owner of the client and guidelines for entering the beneficial owner of the registered entity into the Centralized Records

Guidelines for identifying the beneficial owner of the client and Guidelines for recording the beneficial owner of the Registered Entity into the Centralised Records of Beneficial Owners were issued on 8 January 2019.

The Chair of the AML/CFT Coordination Body passed on 24 October 2018 a Decision on establishing an expert team for developing Guidelines for identifying the beneficial owner of companies and other legal persons. The Expert Team was tasked with developing Guidelines which would regulate the issue of beneficial ownership of commercial entities and other legal persons, associations, foundations, endowments, etc. An APML staff member headed the Expert Team which comprised representatives from the Chamber of Notaries, Bar Association, Securities Commission, National Bank of Serbia, Tax Administration, Ministry of Economy and private sector (banks, certified auditors).

The NRA process has identified a need for uniform guidelines to help the obliged entity address one of the most difficult requirements of the AML/CFT Law and suggest a way forward when issues arise, especially with regard to persons with complex ownership structures, including by providing some examples on how to collect documentation and how to identify the BO. Also, supervisory authorities should have the common approach, which would result in uniform interpretation of BO provisions of the AML/CFT Law.



ML/TF Typologies

A new money laundering, and, for the first time, terrorist financing typologies document, was finalised in April 2019. The document aims to provide practical insight into the risks identified, by considering high-threat crimes and high-threat sectors.

The Chair of the AML/CFT Coordination Body established the Expert Team for developing ML and TF typologies on 11 March 2019. Lead by an APML staff member, the Expert Team included experts from the Republic Public Prosecutor's Office, Prosecutor's Office for Organised Crime, Ministry of Interior, National Bank of Serbia, Securities Commission, Tax Police, Ministry of Justice, Office of the National Security Council and Classified Information Protection, and Security Information Agency.

One of the 2018 NRA Action Plan items also was to reflect the NRA findings, i.e. the risks identified, in the ML/TF typologies.

The Expert Team used a set of questionnaires to exchange views with financial and non-financial entities in order to cross-check the findings of the SARs analysis conducted, and potentially identify any new significant developments.

Cross-border threats

The list of countries found to present a certain level of risks forms an integral part of the national ML risk assessment, which was adopted by the Government on 31 May 2018.

In line with the FATF Methodology and Recommendation 1, countries are required to monitor and review ML/TF risks on a regular basis in order to respond to those risks properly, that is, to take action to prevent and mitigate them.

The Chair of the AML/CFT Coordination Body passed a decision on 13 June 2019 establishing an Expert Team for introducing an information sharing mechanism concerning the list of identified countries.

The Expert Team includes representatives from 9 institutions: Republic Public Prosecutor's Office, APML, Security Information Agency, Prosecutor's Office for Organised Crime, Tax Police, Customs Administration, Ministry of Interior, National Bank of Serbia, and Securities Commission.

The Expert Team analysed and adjusted the World Bank Methodology's cross-border threat assessment criteria. In addition, it developed a Cross-Border Threat Analysis for 2018.



In this way, the risks related to cross-border threats, found for the period 2013-2017, have been reviewed and updated.

The authorities will monitor how often the countries posing a certain level of threat appear in the activities that are under their remits of responsibility and will inform the APML thereof on a quarterly basis, which will then report the findings to the AML/CFT Coordination Body both when it comes to current cross-border threats and changes in cross-border threats noticed.





TEAM FOR LEGAL AFFAIRS AND HARMONISATION OF LEGISLATION WITH INTERNATIONAL STANDARDS

DEVELOPMENT OF THE AML/CFT SYSTEM AT THE LEGISLATIVE LEVEL

Law on the Prevention of Money Laundering and Terrorism Financing (AML/CFT Law)

On 9 September 2019 the Minister of Finance established a Working Group for Drafting the Law Amending the AML/CFT Law, comprising representatives from the APML (Team for Legal Affairs and Harmonisation of Legislation with International Standards), National Bank of Serbia, Bar Association and Chamber of Notaries. The Team was assisted by an international expert, hired by the Project to improve the quality and efficiency of suspicious transaction reporting and APML capacities (IPA 2015). The Law Amending the AML/CFT Law was adopted on 24 December 2019 (*Official Gazette of the Republic of Serbia, no. 91/19*, hereinafter referred to as: AML/CFT Law), effective as of 1 January 2020. The AML/CFT Law was amended mainly in order to achieve the following:

- Align with new EU *acquis*, i.e. Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU;
- Addressing the deficiencies found in the Moneyval Second Enhanced Follow-Up Report for Serbia in relation to technical compliance with FATF Recommendations.

The objectives achieved through the amendments of the law are as follows:

- Harmonization with AML/CFT EU legislation in place, as well as with relevant recommendations in the AML/CFT area;
- Compliance with relevant standards and stipulation of AML/CFT requirements for lawyers and notaries, in line with FATF recommendations 22 and 23;
- Implementation of FATF Recommendations 18 and 40, which regulate supervision and implementation of measures in branches and subsidiaries majority-owned by an obliged entity which is a member of a financial group, and international cooperation powers of AML/CFT supervisors, respectively;





- Addressing the deficiencies perceived in the implementation of the AML/CFT Law then in force.

The following are the key amendments introduced to the AML/CFT Law:

- Regulation of requirements for lawyers and notaries. The amendments brought lawyers and notaries almost on equal terms with respect to the requirements they need to comply with. The range of AML/CFT requirements placed upon lawyers and notaries has been expanded, which means that their AML/CFT efforts will be stepped up. The aim is to achieve compliance with FATF Recommendations 22 and 23 and Moneyval 2016 MER recommendations.
- New obliged entities have been introduced in the AML/CFT Law. Persons engaged in postal communications and custody wallet service providers have been included in the list of obliged entities. The ministry competent for postal and telecommunication services and the National Bank of Serbia, shall supervise compliance with the AML/CFT Law by the obliged entities above, respectively.
- AML/CFT supervision of auditors is no longer under the remit of the APML, but of the Securities Commission.
- Licensing of compliance officers. A requirement for AML compliance officers and Deputy AML compliance officers to have a licence for AML/CFT operations has been introduced. The licence will be issued by the APML based on the results of a professional (licensing) exam.
- Requirements to apply CDD by the obliged entity's branches and majority-owned subsidiaries. The amendments now introduce a definition of 'financial group' and expand the range of data and information exchanged at the financial group level.
- Single register of remittance beneficiaries and Register of safe-deposit boxes. These registers have been created in order to enable access to the data on persons who perform money transfers without establishing a business relationship with payment service providers, and/or without using bank accounts. The National Bank of Serbia will be provided on a regular basis with the data for this Register by banks and other persons providing money transfer payment services, and such data will not be publicly available. The Register of safe-deposit boxes contains data on safe deposit box users and persons with access to safe-deposit boxes, as well as the details on the duration of safe deposit box contracts. The National Bank of Serbia will be provided with this data on a regular basis by banks and the data will not be publicly available, but rather subject to banking secrecy and personal data protection rules.

The amendments provide that the regulations (bylaws) relevant for the implementation of the AML/CFT Law will be introduced within four months of the date the law becomes effective. These regulations include the regulation concerning the methodology for complying with the Law, and one further specifying the provisions on AML/CFT compliance officer licensing examination.



Designation and asset freezing procedure

On 20 December 2018, the Government in its Decision no. 337-12096/2018 - 1, designated seven persons. On 21 December 2018 the Minister of Finance issued a decision freezing the assets of five persons, as it had been established that two of them did not possess any assets.

Furthermore, after a legal person had found that it had business cooperation with a designated person, and informed APML thereof, on 26 February 2019 and 21 March 2019, the Minister of Finance in both cases passed a decision to freeze the designated person's assets.

Article 4 of the Law on the Freezing of Assets with the Aim of Preventing Terrorism and Proliferation of WMD (Official Gazette of RS, nos 29/2015, 113/2017 and 41/2018) provides that the Government will review the justification for designations once a year, at the proposal of the Minister of Finance, having obtained the opinion of the Ministry of Interior, relevant prosecutor's office, security and information agency and the APML. In this regard, review of justification for a designation has been initiated and opinions have been obtained from the mentioned state authorities, both within the required timeframe.

Obligated entity questions and APML opinions on the implementation of the AML/CFT Law and by-laws

Based on Article 84 of AML/CFT Law, the APML prepares and issues opinions on the implementation of AML/CFT Law and relevant bylaws, in cooperation with supervisory authorities, upon request of an obliged entity or other interested natural or legal persons. The opinions are regularly published on the improved APML website at

http://apml.gov.rs/cyr52/faq_group/Стручна-Мишљења.html and

<http://apml.gov.rs/cyr54/tdoc/Стручни-Текстови.html>

Harmonization of sectoral laws with international standards

The Team for legal affairs and harmonization of legislation with international standards contributed to amending the following sectoral laws aiming to achieve compliance with international standards, specifically with FATF Recommendation 28, namely:

- Law on the Games of Chance, proposed by the Administration for Games of Chance;
- Law on Providing Intermediary Services in the Trade and Lease of Real Estate, proposed by the Ministry of Trade, Tourism and Telecommunication;
- Law on Accounting and Law on Auditing, proposed by the Ministry of Finance;

The Team also took part in amending the Law on Centralised Records of Beneficial Owners, proposed by the Ministry of Economy in order to reach compliance with international standards.



APML INVOLVEMENT IN EU - SERBIA ACCESSION NEGOTIATION

Negotiating Chapter 4 - Free movement of capital

Free movement of capital is one of the four freedoms on which the functioning of the EU internal market is based. Prevention of money laundering and terrorism financing is one of the topics under this negotiating chapter, in addition to harmonisation of legislation in the area of capital movements and current payments. The Ministry of Finance is the coordinator of the negotiating group for this chapter.

In the free movement of capital area, member states are required, with certain exceptions, to remove all restrictions to capital movements both within the EU and between member states and other countries. Current payments are related to current transactions, i.e. transactions involving residents and non-residents, whose underlying aim is not transfer of capital. Rules have been defined concerning the national and cross-border payment services in EU. The aim is for the member state to have simple, efficient and safe cross-border payments while improving the beneficiaries' rights to use of payment services. Also, the intent is to improve competition by opening the payment services market to new participants, thus fostering increased efficiency and reduction of costs and establishing the necessary platform for a single area for payment in Euros.

Full liberalisation of capital movements is a prerequisite of EU membership and opens up possibilities, for instance, of opening bank accounts abroad, granting loans to non-residents, taking cash in and out of country without restrictions, equal treatment of nationals of other member states with respect to the acquisition of legal title over real estate, etc. In achieving liberalisation of capital movements, there is a considerable risk of attempts to misuse the free movement of capital and freedom of provision of financial services which are characteristic of the integrated financial area. It is the possibility of misuse that constitutes the reason why measures, which are the subject-matter of relevant EU *acquis*, are needed at the EU level. Misuse of the financial system to move illegal proceeds but also of the money that has been legally obtained but can be used to finance terrorism, poses a clear threat to integrity, proper functioning, reputation and stability of financial systems.

The most important preventive EU legislation in this area is the so-called Fourth Directive, i.e. Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

In April 2018, the European Commission announced the adoption of the so-called Fifth AML Directive, i.e. Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU. The most important novelties introduced by the Fifth AML Directive are as follows:



- increase in EU FIU powers and facilitated access to information, especially centralised registers of bank account information;
- obligation to establish a BO register to ensure more transparency of information on beneficial owners of legal entities and trusts;
- better risk management in relation to the use of virtual currencies for terrorist financing;
- restriction of the use of prepaid cards;
- additional measures and actions related to financial transactions with high-risk countries;
- requirement for all member states to establish centralised national bank account and payment account registers.

The novelties brought by the Fifth AML Directive have been incorporated into the Serbian legislation through the December 2019 amendments to the AML/CFT Law ("Official Gazette of RS", No. 91/19).

In addition to the Fifth AML Directive, the relevant EU *acquis* includes the Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds and repealing Regulation (EC) No. 1781/2006.

At the Inter-Governmental Conference on the Accession of Serbia to European Union, member countries agreed that Serbia was ready to open a Negotiating Chapter 4 on free movement of capital, so the negotiations on this chapter were opened on 10 December 2019.

Negotiating Chapter 24 - Justice, freedom, security

Creating an area of justice, freedom and security is also one of the EU objectives. Even though it is addressed under Negotiating Chapter 4 on free movement of capital prevention of money laundering and terrorism financing, i.e. the criminal aspect of these issues, is covered also within Negotiating Chapter 24 - Justice, freedom, security, particularly under the section on fight against organised crime (money laundering) or fight against terrorism (financing of terrorism).

The Ministry of Interior coordinates the negotiating group for this chapter.

In addition to the above areas, this chapter also addresses the areas of asylum, migration, visa policy, border control and Schengen, and certain aspects of fight against human trafficking, fight against drugs, police cooperation, justice cooperation in civil and civil matters, customs cooperation and Euro counterfeiting.

As the relevant *acquis* in the AML/CFT area for this chapter, one EU act was initially singled out, i.e. Council Decision of 17 October 2000 concerning arrangements for cooperation between financial intelligence units of the Member States in respect of exchanging information.



However, other aspects of the fight against ML and TF are also considered through the work in this chapter, especially through presentation of information concerning the fulfilment of relevant interim benchmarks related to the implementation of Moneyval recommendations, increase the number of suspicious transactions reported to the APML and APML cases, as well as proactive use of APML information in investigations.

In 2019, the APML took an active part in implementing the Action Plan for Negotiating Chapter 24, i.e. the part of it covering the fight against money laundering (subchapter on the fight against organised crime). The APML also contributed to Subchapter 7 on the fight against terrorism.

One of the APML activities in implementing the Action Plan for Negotiating Chapter 24, within the Subchapter on fight against organised crime, is participation in the Implementation of the National Criminal Intelligence System (NKOS).

Negotiating Chapter 31 - Foreign, security and defence policy

Common foreign and security policy of the European Union was established in the Maastricht Treaty, and especially strengthened in the Lisbon Treaty, as the EU wants to speak with one voice when it comes to foreign policy. It is mostly founded on consensus of the member states and it constitutes a mechanism for adopting common declarations and guidelines for political and security issues that lead to common diplomatic action and to undertaking common actions. Decisions are adopted to define the EU position towards certain issues and measures to implement Common foreign and security policy, including sanctions.

In addition to diplomatic action, main lines of action within this chapter is the Common security and defence policy, restrictive measures and arms control. Ministry of Foreign Affairs is the coordinator for this negotiating chapter.

Relevant EU acquis, within the APML's remit, are mostly those related to restrictive measures taken where the EU decides that certain country violates international law or human rights and that it does not respect fundamental democratic values and rule of law as well as the acquis related to the fight against terrorism, i.e. its financing (e.g. *The fight against terrorist financing [Council 16089/04], 14 December 2004; Revised Strategy on Terrorist Financing [Council 11778/08], 11 July 2008*). Sanctions may vary, from diplomatic to economic, and the candidate country is expected to align, in the negotiation process, with the regime of restrictive measures provided by EU.

The segment where the APML offered its contribution is related to the application of international restrictive measures. In particular, the Law on Freezing of Assets with the Aim of Preventing Terrorism and Proliferation of WMD further specifies the asset freezing measures to implement UNSCRs 1267, 1373 and 1540, and thereby also implementing the relevant *acquis*.



INTERNATIONAL COOPERATION

Conference of the Parties of the Warsaw Convention (COP)

APML Assistant Director took part at the 11th meeting of CoP of the Warsaw Convention in Strasbourg on 22-23.10.2019. Parties were informed that countries would receive a Questionnaire on Transversal Thematic Monitoring for Articles 3(4) - confiscation of criminal assets, 7(2c) - investigative powers and techniques and 19(1) - requests to banks to monitor transactions. The deadline for replies would be 14 February 2020. Apart from the APML Assistant Director, a representative from the Ministry of Justice too was part of the delegation.

Council of Europe MoneyVal Committee

Serbia has been a member of Moneyval Committee since 2003. This Committee functions on the principle of mutual evaluations (peer reviews) based on the FATF Methodology and Standards. Serbian delegation to Moneyval in 2019 consisted of experts from the APML, Ministry of the Interior, Ministry of Justice and National Bank of Serbia, the Head of Delegation being State Secretary of the Ministry of Justice. In 2019 there were two regular plenary meetings of Moneyval, namely, 58th plenary on 15-19 July 2019, and 59th plenary on 2-6 December 2019, both attended by APML representatives.

At the 59th plenary, Moneyval considered Serbia's progress report and upgraded the 2016 Mutual Evaluation Report (MER) ratings for Serbia on Recommendations 6, 8 and 18. Of all technical compliance issues found in the 2016 MER, as at December 2019, Moneyval is still to verify Serbia's progress at the technical level with respect to outstanding four FATF recommendations. These four recommendations are related to the provisions of the AML/CFT Law on lawyers and public notaries (FATF Recommendations 22 and 23), fit and proper provisions in a number of sectoral laws for some non-financial sectors (games of chance, real estate trade and lease agency, accounting and auditing, etc.), as well as the provisions on the powers of AML/CFT supervisors to cooperate and exchange information internationally. All the above concerns had been addressed until December 2019, through the amendments to the relevant laws, including the AML/CFT Law.

It is expected that Moneyval will formally verify this progress at its first plenary in 2021, as was decided by Moneyval in December 2019, rather than in December 2020.

At the December Plenary Serbian delegation held a presentation about Serbia's experience with FATF-ICFR enhanced monitoring, and the implementation of the ICRG Action Plan for Serbia, all of which preceded the removal from the so-called grey list.



FATF

FATF is an intergovernmental body whose aim is to develop and improve AML/CFT measures at national and international levels. FATF is a policy-maker working to create political will to reform AML/CFT legislation and regulatory framework at the national level.

In all its activities, the FATF works with other international AML/CFT bodies. One of the most important FATF documents are the FATF Recommendations - International standards on combating money laundering and the financing of terrorism & proliferation - which are the main international standard in this area. Serbia's compliance with these standards were evaluated by Moneyval experts during the so-called fifth round of Moneyval evaluations.

Within the ICRG process, a meeting with Joint Europe-Eurasia Group (JEEG) was held at FATF/OECD Headquarters in Paris, on 22 January 2019. At the meeting, the JEEG noted that Serbia had made significant progress in improving the effectiveness of the system on a number of FATF Methodology's Immediate Outcomes (IOs), and that the conditions were met to organize an on-site visit of the ICRG JEEG to Serbia.

The JEEG set up a team that came to an on-site visit to Belgrade, Serbia, on 27-28 May 2019 to confirm and verify the progress leading to delisting. After the visit, the JEEG expert team noted in its report that Serbia had implemented fully FATF Action Plan of 2018, and had gone a step beyond what was required by the Action Plan in many areas. In line with this report, at the FATF Plenary session, which took place in Orlando, USA, 16-21 June 2019, Serbia was removed from the so-called *grey list* (list of countries with strategic AML/CFT deficiencies), on which it had been since February 2018. On this occasion FATF noted that not only that the Action Plan had been implemented, but that extensive legislative activity took place as well: 12 laws came into force, more than 60 regulations (by-laws), guidelines and other documents were introduced. Significant efforts were made to make legislation effective in practice and enhance cooperation among all relevant stakeholders, and reforms at the institutional level were implemented too.

Egmont Group

Egmont Group is an association of financial intelligence units (FIUs) worldwide, whose objective is to promote and improve cooperation in terms of FIU to FIU financial intelligence exchange according to the Egmont Group's principles for information exchange. The APML joined the Egmont Group in 2003. The Egmont Group holds its meetings twice a year, i.e. a Plenary Meeting, including Heads of FIUs' meeting (between May and July) and EG Working Groups (WG) Meetings (held usually in January or February). The WG meeting was held in Jakarta, Indonesia, on 28-31 January 2019, and the EG plenary was held in the Hague, The Netherlands, 1-5 July 2019. Two representatives of APML took part at the Plenary meeting, along which WG meetings took place as well. Both representatives participated at the meeting of Membership, Support and Compliance Working Group – MSCWG. On the margin of this event a MoU was signed between APML and FIU of the Holy See (Vatican).



Egmont Group members had the deadline on 30 November 2019 to complete Biennial Census, a questionnaire based on which a database on each member FIU is formed and updated, which is then available to all Egmont Group members. The database contains information and data on each member FIU's structure, key mechanisms for financial intelligence activities provided for by the law, IT component, number of information exchanged nationally and internationally and training needs. As of the end of 2019, the Egmont Group had 165 member FIUs with a tendency of further expansion of membership.

Eurasian Group (EAG)

APML has the status of observer in the EAG. The first plenary EAG meeting was held in Moscow On 27-31 May 2019, and was attended by a representative of APML. In the framework of the meeting a workshop was held in the organisation of FIU Russian Federation on enhancing the infrastructure of an FIU through the use of new technologies based on artificial intelligence and provision of special tools for investigating financial crimes related to crypto-assets/blockchain. The second plenary EAG meeting was held in Ashkhabad, Turkmenistan, 25-29.11.2019, with two APML representatives attending. One of the representative is a member of the Working Group on Typologies and CTF. On the margin of this event a proposal was made for APML to sign a MOU with FIU Turkmenistan. The procedure of concluding the MOU will be done through diplomatic channels.

In January 2019, for the purpose of an EAG research, the APML completed a Questionnaire on terrorism financing using assets from crime, including organised crime, and a section of the Questionnaire was sent to other relevant authorities, the replies of which were consolidated, translated and returned to EAG by APML.

Regional HoFIUs Conference

The 2019 annual regional HoFIU's conference was held in Ohrid, 3-4 October. It was attended by APML Director and Assistant Director. Also represented were the FIUs from Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, North Macedonia, Albania. The topics included matters of relevance for regional FIUs, risks and challenges in combating money laundering, as well as the presentation of Council of Europe's Horizontal Facility. HoFIUs also had a closed session. It was agreed that the following conference would be held in Serbia in October/November 2020.

Cooperation with international organisations and authorities of other countries

APML continued working actively with OSCE, US authorities (Department of Justice, Department of State – US Embassy in Belgrade).

It should be emphasised that APML staff took part in US-supported intensive training programme for proactive investigations of corruption, financial fraud and economic crime, and in specialised training programmes for certified fraud examiners (CFE) and certified AML specialists (CAMS).



FATCA

On the basis of a Government conclusion of 28 June 2014, Serbia signed a Letter of Intention, confirming readiness to conclude inter-governmental agreement on implementation of provisions of Foreign Accounts Tax Compliance Act (FATCA) and an agreement on including Serbia into the list of jurisdictions implementing FATCA, posted on FATCA website.

The Inter-Governmental Agreement between the USA and Serbia (hereinafter referred to as: IGA), concluded for the purpose of achieving enhanced compliance with USA tax regulations, refers to a set of US regulations introduced with the aim of combating tax evasion. These regulations envisage that foreign financial institutions or other financial intermediaries should take part in preventing tax evasion committed by US citizens or residents holding their financial assets in non-US financial institutions and in foreign accounts, by reporting to IRS.

The IGA was signed on 10 April 2019 in Belgrade, and on 24 December 2019 the National Assembly adopted the Law Ratifying the Agreement between the governments of Serbia and USA for the purpose of achieving enhanced compliance with USA tax regulations and implementation of FATCA (*Official Gazette of RS - International agreements* , no, 16/2019).

Pursuant to the provisions of the ratified Agreement, relevant authorities for the implementation are Administration for the Prevention of Money Laundering and Internal Revenue Service for Serbia and USA, respectively.

In the period to come, an Arrangement will be signed between the authorities, which provides in more details the methodology of reporting, procedures and rules necessary for the implementation of the Agreement.

For the purpose of regular reporting and implementation of requirements provided for by the IGA and Arrangement, a Team for the Implementation of Tax Compliance at International Level was established in the APML.



SECTOR FOR ANALYSIS AND COUNTER-TERRORIST FINANCING

The Sector for analysis and counter-terrorist financing comprises the Analysis Department and Counter-Terrorist Financing Team.

The Analysis Department has two sections: *STR Analysis Section* and *Section for Interagency Cooperation*.

In 2019, the Sector opened 1,255 new cases. In addition to these new cases, the analysts also continued working on a large number of cases opened in the previous years.

SECTION FOR INTERAGENCY COOPERATION

Prosecutors' offices

In 2019, competent prosecutors' offices sent a total of 186 requests to the APML.

Prosecutor's office	Number of requests
Prosecutor's Office for Organised Crime	59
Higher prosecutor's offices	124
Basic prosecutor's offices	3

The justifications of suspicion provided with the requests mostly indicate the following as predicate crimes: corruptive crimes, fraud, expenditures made contrary to the specified purpose, embezzlement, unauthorised crossing of the state border and smuggling of persons, illicit production and circulation of narcotic drugs, forgery, all forms of organised crime, etc.

The APML disseminates its reports to competent prosecutors' offices in line with the AML/CFT Law and the Agreement the APML signed with the Republic Public Prosecutor's Office on 26 April 2017. In 2019, the APML made 158 disseminations to competent prosecutors' offices.



Prosecutor's office	Number of reports
Prosecutor's Office for Organised Crime	37
Prosecutor's Office for Cybercrime	1
Higher prosecutor's offices	120

Most of the analyses and communications about suspected ML were sent to the Higher Public Prosecutor's Office in Belgrade (66 cases in total).

Regional distribution of communications sent to prosecutors' offices is shown in the table below.

Higher Public Prosecutor's Office	Number of reports
Belgrade	66
Kraljevo	10
Niš	19
Novi Sad	24

In most of the cases, communications were sent to prosecutors' offices because of suspicion on simulated legal transactions behind which there is no actual economic activity (i.e. purchase and sale of goods or services was not actual made), or behind which stands corruption, drugs trafficking, human trafficking, forgery of business documentation, or various forms of fraud or links to criminal groups in Serbia.

Overall, compared to previous years, cooperation with prosecutors' offices has a rising trend. This is specifically reflected in the number of exchanged communications (requests) aiming to identify ML and predicate, proceeds-generating crimes. The Government's commitment to fighting corruption resulted in stronger Higher Prosecutor's Offices which now have specialised anti-corruption departments in Belgrade, Novi Sad, Nis and Kraljevo. Organisation and coordination has improved by the establishment of Task Forces, which naturally also include APML staff. The anti-corruption system, organised in such a way, has produced results, which can be seen in the statistics about APML cooperation with higher prosecutor's offices and with the Prosecutor's Office for Organised Crime.

Ministry of the Interior

In 2019, the Ministry of the Interior sent 217 requests to the APML. Ministry of the Interior requests involved checking APML's own databases (CTR and STR databases), as well as obtaining data concerning turnover in bank accounts (for the previous 6 years on average),



transfer of money through payment institutions and requesting information from other FIUs using the Egmont Group secure website.

As part of APML's STR analyses, the APML sent 85 requests to the Ministry of Interior, sharing with them information about suspicious activities, but at the same time requesting information concerning criminal offences, potential ties with criminal groups in Serbia and any other operational data that the Ministry of Interior holds. The activities of the subjects of APML's analyses involved suspicion on illegal origin of funds, drugs trafficking, fraudulent practices, abuse of office by responsible person, human trafficking, terrorist financing and securities manipulations.

Security Information Agency

In 2019, the Security Information Agency sent 54 requests for information to the APML. The requests involved a check of APML databases, as well as of bank account turnovers. Most of the information exchanged was related to suspected drugs trafficking, human trafficking, terrorist financing, links to criminal organisations, transfers of money of dubious origin to bank accounts in Serbia and forgery of ID documents by individuals.

In addition, after analysing certain STRs, the APML forwarded to the Security Information Agency a total of 74 communications for potential further action, requesting feedback on the results of any action that they take. Most information involved foreign nationals holding accounts or conducting transactions in commercial banks in Serbia, whose activities raised suspicion on illegal border crossing, human trafficking, drug trafficking, fraud and terrorist financing.

Due to the migrant crisis, the APML received frequent STRs from payment institutions. These suspicious transactions were disseminated to Security-Information Agency for further action.

Tax Administration

In 2019, Tax Administration sent 63 requests for information to the APML and the APML disseminated 119 information to Tax Administration for further action. Information sent by APML mainly involved suspicion on fictitious legal transactions, the aim of which seemed to be to drain cash from company accounts with the intention to evade paying taxes. The most commonly identified patterns of tax evasion included cases where the ratio of loans in a company's total declared turnover is significant, which raises suspicion that the company is very much involved in grey economy. A number of APML requests were related to the repayment of



founder's company liquidity loans which are suspected not to have actually been made. It seems that a large number of such cases are actually designed to fraudulently drain cash from company's bank account(s), thereby evading declaring actual taxable income.

The effectiveness of APML's work is confirmed by the information that Tax Administration issued 114 orders for inspection on the basis of information received from APML: 71 inspections have been completed, 46 of which detected some irregularities. The total amount of tax due identified in the inspections above is RSD 431.999.480,00.

Anti-Corruption Agency (ACAS)

In 2019 Anti-Corruption Agency sent APML 9 requests, which involved a suspected disproportion between the assets of a PEP and/or their associates as declared to ACAS and legitimate income. Also in 2019, the APML sent to ACAS one information report over a suspicion that certain assets had not been declared to ACAS.

National Bank of Serbia

In 2019, the National Bank of Serbia (NBS) in line with the NBS-APML Cooperation Agreement, sent to the APML 49 requests for information concerning STRs reported by obliged entities (number and quality of STRs and CTRs) and for a check of information about persons acquiring bank shares, as well as about persons intending to provide intermediary services in insurance business.

Customs Administration

In 2019 Customs Administration sent 36 communications to the APML, due to suspicion of money laundering. In addition, due to infringements of currency law, Customs Administration sent 27 communications to the APML. In the same period APML sent 20 requests for information to relevant authorities based on information received from Customs Administration.

Results of cooperation with other authorities

One of indicators of successful cooperation between the APML and other relevant state authorities is the fact that in 2019 there were 60 final sentences for money laundering. These convictions involve 60 individuals.



There is also 1 final conviction for terrorism financing involving 7 individuals in 2019.

Another indicator of effective interagency cooperation is the fact that the APML, in cooperation with other authorities, temporarily suspended execution of transactions in the amount of RSD 25.353.840,00.

Cooperation with foreign FIUs

In 2019, the APML responded to 105 requests for information received from foreign FIUs. The requests for information mainly involved Serbian citizens holding bank accounts abroad, who were suspected to have links to criminal groups or criminal activities, or foreign citizens holding bank account in Serbian commercial banks or being involved in criminal activities in Serbia.

As part of work on its own cases, the APML sent 224 requests for information to foreign FIUs. The requests for information mainly involved non-residents with bank accounts or business activities in Serbia, whose origin of funds or business activities raised suspicion. In addition, a number of the requests were sent to foreign FIUs in order to identify assets of Serbian citizens abroad.

An overview of FIUs with which the APML exchanged most of the information in 2019 is shown in the table below:

	Foreign FIU' requests	APML's requests
Slovenia	12	11
Austria	3	10
Bosnia and Herzegovina	6	8
Bulgaria	3	14
Cyprus	3	15
Croatia	4	7
Czech Republic	5	10
Germany	5	18
Malta	10	8
Turkey	1	10



SECTION FOR STR ANALYSIS

In 2019, obliged entities reported 2,268 SARs to the APML. An overview of the SARs by obliged entities is shown in the table below:

Obliged entities	Number of SARs
Banks	819
Broker-dealer companies	1
Real estate agents	2
Accountants	6
Auditors	5
Payment institutions	891
Entities engaged in postal communication	17
Insurance companies	58
Public notaries	353
Lawyers	5
Authorised currency exchange offices	67
Organisers of special games of chance in casinos and organisers of games of chance using electronic communications	15
Leasing companies	5
Other sources*	24

As can be seen from the table above, most of the SARs in 2019 were reported by payment institutions and banks.

Extensive narratives accompanying the SARs are sent in by banks which, in addition to indicating reasons for their suspicion with regard to a specific transaction, also submit extensive information about the activities of the reported persons prior to the time of the SAR.

Most SARs reported by payment institutions (891) were disseminated to other authorities for further action over the suspicion on smuggling and trafficking of persons and illicit trade.



Those involved in transactions that have not been disseminated, i.e. those where there is not enough ground for suspicion on ML or TF, have remained subject to ongoing monitoring and in case of any further incoming SAR or CTR such persons will be reviewed and reassessed.

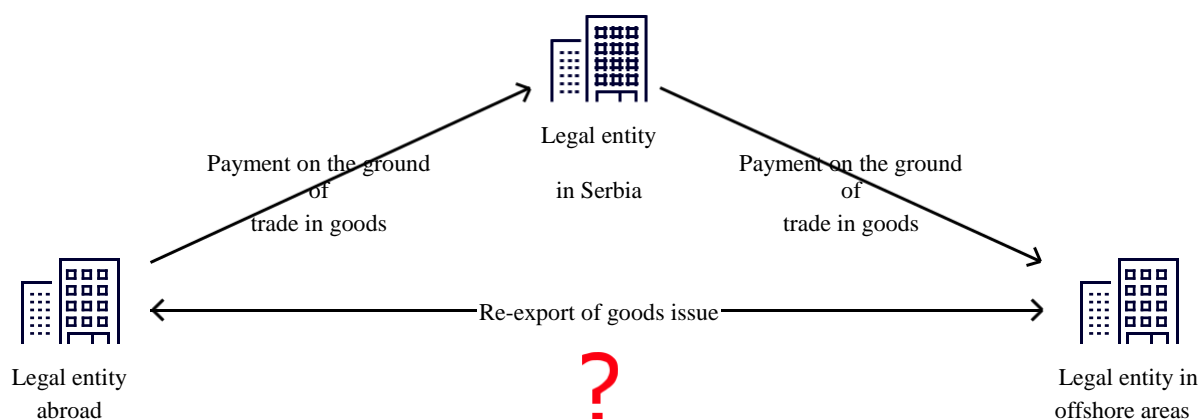
The number of SARs is not an indicator of SAR quality, and one should take into account the application of the risk based approach, which could result in a reduced number of disseminations. In addition, the number of outgoing and incoming communications exchanged with other authorities does not suggest there is any lack of quality of information received or disseminated by the APML. Therefore, it would be fair to say that the increase in quantity of disseminations has indeed been followed by an increase in their quality.



ML TYPOLOGIES

An analysis of SARs mainly reported by banks showed the same ML typologies as in previous years:

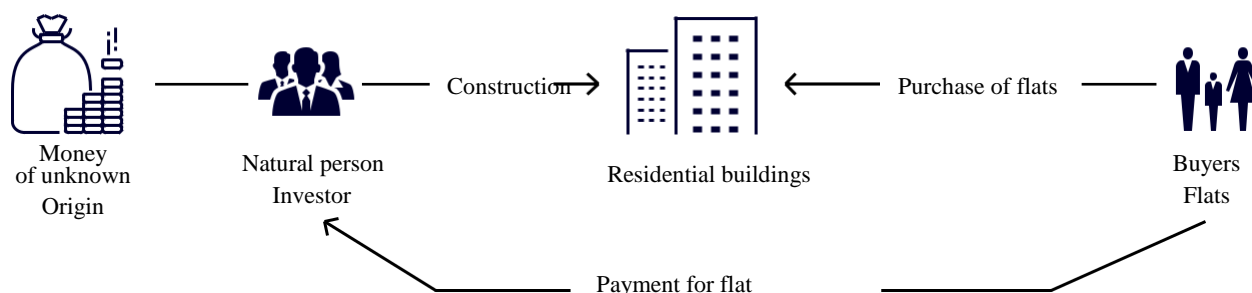
- 1. Re-export transactions, ‘transit transactions’ involving unassociated legal entities in international payment operations:** Suspicious re-export transactions have been noticed: there is no actual movement of goods from supplier to receiver which raises suspicion that the movement of funds is fraudulent and has the aim of layering the funds using a number of beneficiaries in various countries thereby attempting to disguise their true origin and integrate them into the system. In addition, layering of large amounts in international payment operations through transactions without justified economic purpose has been noticed. These are usually ‘transit transactions’ originated by a foreign directing company that channels funds to a Serbian company, the transactions usually being described as payment for services. The funds are then transferred immediately on the same day, also described as payment for services as per invoice, to bank accounts of other firms which are often located in offshore areas. In such circumstances, the true, actual business line of the directing company can hardly be identified and is assumed to have the purpose of disguising and structuring of dirty money or to organise tax fraud (EU VAT system).



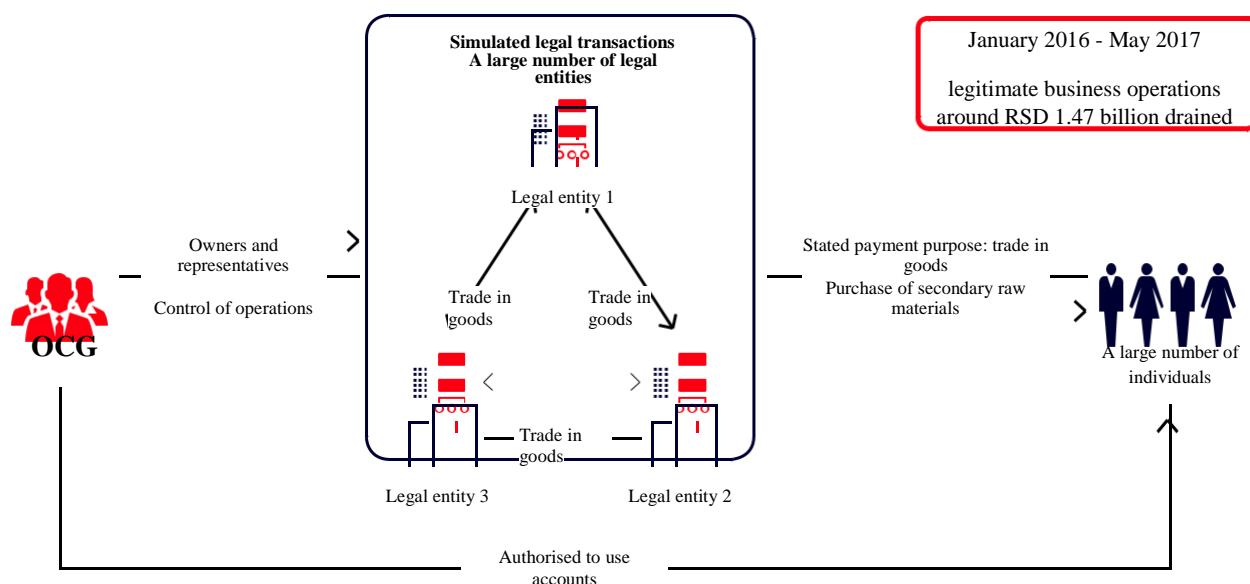
- 2. Draining of funds from legal person’s account using entrepreneurs (sole traders):** An individual starts a sole trader business (natural person), with the aim of draining funds from the bank account of a legal entity (company) that it controls within the boundaries of applicable legislation. The funds are transferred from the legal person’s account to the benefit of the sole trader (up to the statutory maximum of RSD 6,000,000.00) and then withdrawn from the sole trader’s bank account. This typology clearly involves suspicion that the directing individual of the legal entity is draining cash from the company in an organised manner using a number of sole trader firms (which are subject to lump-sum tax) that are linked to the legal entity transferring funds to these lump-sum taxable business entities. The transactions are usually ‘fictitious services’ (those that have not actually taken place) and go up to the statutory limit of RSD 6 million, and are then withdrawn and handed to the scheme organiser (owner of the legal entity).



3. **Money laundering through individual real estate developers:** An individual invests money of unknown origin in the construction of residential facilities with the building permit and other relevant documentation in place. However, investing into residential and business facilities without the construction permit raises more suspicion on money laundering. In such cases usually there is no supervision in place in the course of construction. After the construction, the building is legalised (according to the relevant law) and sold (mostly for cash). In this way the money of ‘dubious origin’ is apparently legalised, income is generated (mainly in cash) and capital gain that are outside of the reach of tax authorities.



4. **Simulated legal transactions:** Funds are transferred with no apparent economic justification between a large number of legal entities that appear to be linked. Eventually, the funds are transferred from bank accounts of legal entities to personal bank accounts on the ground of *purchase of secondary raw materials*. The individual withdraws the money from the account immediately after it arrives in the account.



5. Misuse of online games of chance for ML purposes

We could divide online casino misuse typologies in simple and complex types.

- A Serbian resident opens an account with an online casino in a foreign country and uses his/her e-mail address to transfer significant funds of unknown origin from a master account opened on a payment platform.



After the transaction, this person may spend a low amount of money for gambling or withdraw the funds from the sub-account without gaming costs. The person receives the payout slip from the online casino, and the withdrawn funds are actually a win in online gambling.

- Based on a previously agreed on scenario, several online casino sub-accounts enter simultaneously the online casino and sit together at the virtual game table. One of the players who deposited significant amounts of money on his sub-account, using the master account opened on payment platforms, loses intentionally, according to a prior agreement, to the benefit of other players at the table. Those other players withdraw the funds from the sub-account and, using the master account, withdraw the funds in cash in third countries together with the payout slip showing the actual win gained in online casino.
- A non-resident with temporary stay in Serbia opens a sub-account with an online casino in a foreign country using a false email address that may actually exist, or it may be completely fabricated, which he uses to deposit funds through the master account opened on online platforms. A non resident gambling according to a prior agreement loses funds on purpose, to the benefit of other players at the virtual game table, or wins in a game, while the funds won or lost are withdrawn together with a payout slip in third countries.

MONEY LAUNDERING TRENDS AND CHALLENGES

1. PLACEMENT OF CASH WITH UNKNOWN ORIGIN INTO THE CONSTRUCTION REAL ESTATE SECTOR

As was the case in previous years, 2019 too saw a trend of placement of cash or money with unknown origin or originating from organised crime or individual criminals. This is followed-up on by the authorities working together in investigations to check money flows which ended in construction business or trade in real estate.

The 2018 NRA highlights the high ML risk related to the construction sector. This situation is probably further affected by the fact that illegal construction business is still possible, although there is visible progress in the construction permit legislation and more frequent and more efficient operation of inspection authorities.

2. FINANCIAL OPERATIONS THROUGH NON-RESIDENT ACCOUNTS

There is a rising trend of money transfers using non-resident bank accounts held by foreign legal and natural persons in the Serbian banking sector. Economic and legal justification of financial operations for some non-residents in terms of re-export business in goods and services is questionable and therefore suspicious. Further analyses, which could include checks through international cooperation channels and especially through onsite inspections,



would corroborate this suspicion and also reveal segmentation of specific trade operations (for certain goods or services) that are used fictitiously either for carrousel fraud or money laundering, or both.

3. TAX EVASION

It seems that the trend of tax evasion is continuing. This is corroborated by the fact that the number of APML cases referred to the Tax Administration has increased compared to previous years. Simulated operations are still present, i.e. transfer of funds and draining of cash, on fictitious grounds, using bank accounts of individuals and sole traders (entrepreneurs). Likewise, there are cases of fictitious business operations which are arranged in order avoid declaring tax, because those involved avoid doing legitimate trade in goods; or false declarations are filed in order to fraudulently claim tax refund. In both cases this is primarily VAT. Experience and cooperation with relevant state authorities indicate that there are organised crime groups, either those already existing or emerging for the specific purpose, the only aim of which is to commit premeditated fiscal frauds, i.e. tax evasions, for their own benefit or that of their clients, with enormous damage inflicted on the budget of the Republic of Serbia.

4. ILLEGAL DRAINING OF DOMESTIC COMPANIES' FUNDS IN INTERNATIONAL PAYMENT SYSTEM

Having in mind that the authorities so far have successfully detected illegal draining of funds from bank accounts, professional organised crime groups are designing new and more complex schemes to drain money. The following international practice has been detected, as follows: domestic companies that want to drain their cash, make direct or indirect domestic transfers to non-resident accounts of foreign companies (to the organizer), or transfer it through intermediary companies into a non-resident account of the provider of (fictitious) services in the surrounding countries. The money is then withdrawn in these countries from the bank account of the organiser of the scheme subsequently the money is moved back into the country as cash through a number of couriers, without being declared at the border crossing. The cash was withdrawn from the account held by the organizer in that country.

5. CRYPTO CURRENCIES (VIRTUAL CURRENCY)

As highlighted in the 2017 and 2018 Annual Reports, the emergence of crypto-currencies (virtual currencies) is seen as a potential ML threat for the near future. This relates to the production and circulation of crypto-currency, as well as trading in such currencies; and it is widely known that there is a global stock market trading in crypto-currencies. Technological development enables the creation of countless crypto currencies and is difficult to predict what may result in the end, in terms of their purpose, usefulness and justification. Practice teaches us that the fluctuation of these currencies is common and that it rises or falls steeply. This fact is probably affected by speculative actions caused by enhanced demand and the increase in price. What monetary authorities see as concern is the enormous amount of money converted to crypto currencies. Serbia is not immune to the growing trend of crypto currency trade. Financial sector records balancing of increasing participation of numerous actors in this field (usually through credit cards).



Given the great deal of anonymity in a trading chain and in virtual wallets, this is an alluring opportunity for criminal organisations and criminals to use this undefined and unregulated newly emerged industry for their criminal acts and money laundering. In recent future there will certainly be quite a few challenges and necessary steps to take with regard to sound prevention and control of crypto currencies; this primarily means defining and identifying relevant stakeholders, actors in trading, monitoring and controlling flows of funds subject to the conversion into crypto currencies and vice versa.

6. DIGITAL ECONOMY

ICT technologies are increasingly used. For business and competition enhancing purposes, new products emerge on IT platforms especially in the segment of services, in banking and factoring in particular. The goal is to enhance companies' business activities without face-to-face customers, through on-line contact and exchange of goods and services, where transactions are settled on specially created platforms. In such cases, it may be a challenge for the creator of an e-business platform, which is at the same time an obliged entity according to the AML/CFT Law, to know the number of clients or client's operations well enough, which may be a result of *inadequate client identification*. Therefore the regulators and supervisors will have to make an effort to find an appropriate response and regulate emerging products in order to support the development of digital economy, and at the same time to make these operations compliant to the legislation in force.

7. CROSS-BORDER THREATS

As for cross-border threats, APML experience is reflected in the descriptions of the practice referred to under item 5 of the Report – ML Typologies. Obligated entity reports and the instituted investigations have revealed suspicious re-export transactions (i.e. those where there was no actual trade in goods), as well as fictitious cross-border transfers whose aim is to quickly layer, transfer and integrate money, involving companies from multiple countries. Significant risk emanates from off-shore companies. These circumstances may suggest that VAT fraud may have occurred in EU countries. Schemes involving transfer prices may also be possible, e.g. associated persons collude with the intent to defraud the fiscal system. Such incidents call for the need to foster closer international cooperation in order to prevent foreign trade activities as described.

8. INTERNATIONAL PAYMENTS IN SIGNIFICANT AMOUNTS WITHOUT A JUSTIFIED PURPOSE - TRANSIT MONEY CHANELLED THROUGH FINANCIAL PLATFORMS AND BOILER COMPANIES IN SERBIA

As highlighted in the introduction of this Chapter, this trend is related to international financial platforms that can be defined in a broader sense as financial payment institutions through which international payments are made. With respect to suspicious money flows detected in Serbia, these include numerous transfers in high amounts, sent by a number of remitters from abroad through platforms or electronic operators, in favour of domestic companies (so-called boiler companies), which receive the funds, keep them for a short



period of time and transfer them further to numerous locations around the world, retaining a certain fee (commission). Interestingly, such cases so far in Serbia have involved transfers of a couple of hundreds of millions of EUR, coming from abroad in favour of domestic companies (*boiler* companies which have no justifiable business operations in Serbia). The funds are then quickly transferred in favour of new beneficiaries abroad. What worries is the fact that the funds in such transfers are co-mingled and it is difficult to tell dirty from clean money, and it is frequently the case that not even FIU-to-FIU cooperation can get answers as to the source/origin of the funds, the purpose of the transfer and business status of the remitter. Therefore, suspicion remains as to the intended purpose of transaction, which is usually described as computer and software development services. Suspicion is further aggravated by the redirecting of funds into off-shore jurisdictions or the ones suspected of having poor AML standards.

The cases described above present a serious task for investigative authorities to determine whether such significant transfers and payment operations in Serbia have any justification. At the same time there is the question of fees (commissions) earned by the boiler companies as they have the role of agent in such operations. More specifically, the question is whether they are knowingly involved in illegal transfers, which earn them illegal proceeds. Justification of and proving suspicion for this kind of payment operations include to a great extent willingness of FIUs to exchange information internationally, as some of them do not wish to cooperate adequately, which implies that the process of assessing whether there are grounds to launch an investigation will be time-consuming.

8. FOP (FREE-OF-PAYMENT) TRANSACTIONS WITH SECURITIES

This type of trading has never actually stopped, although there has been a significant downfall after the stocks were integrated (acquired) by investors, directors of joint stock companies, consortiums. These transactions usually involved stocks which were acquired free of charge by employees in joint stock companies, by force of law. A practice of gifting stocks where there is a suspicion of cash payment in return has been observed as a trend in trading through public invitation and bidding. Changes in ownership and payments are at a later stage done by broker-dealer companies at the Central Securities Depository and Clearing House. This has specially been the case with stocks of Telekom Serbia JSC, which were distributed free-of-payment to the Serbian residents of legal age in non-listed Belgrade Stock Exchange. Due to insufficient stock-market trading and quotation, a grey market for trading in the stocks of Telekom Serbia JSC has emerged, and their option value ranges between 150-180 mln EUR, judging by the advertised price. APML does not know if the money of suspicious origin is present in FOP transactions, but it is concerned about possible integration of such money, if any, as it potentially generates valuable assets if combined with stock-market trading or takeover of significant stock-portfolios (if the state as a majority shareholder allows it). This possibility of increasing the value of gifted stocks was the basic motive why individual investors acquired the stocks.



10. COMPANIES FOUNDED BY NON-RESIDENT INDIVIDUALS WHOSE BUSINESS RAISES SUSPICION ON FICTITIOUS ACTIVITIES

In recent years we have noticed an increasing trend of companies being founded by foreign nationals believed to have sole purpose of layering funds, by receiving incoming transfers and shortly afterwards, almost simultaneously, by ordering they be transferred to numerous locations abroad. The amounts involved are by far smaller than the amounts transacted by *boiler* companies (described in Point 9). These transfers are usually described as payment for services provided, where it is not clear whether the service has actually been provided and whether the supplier has invoiced the service. Their business activities usually amount to invoicing services, being involved in transit trade of goods, representation and intermediation, computer services, various technical services, re-export (goods purchased abroad and not imported into the country, but directly delivered to a foreign country or a customs area, based on a contract). Checks made through international cooperation channels indicate that some of the founders of such companies have been involved in certain crimes, or are actually front companies for persons involved in certain crimes (tax evasion, commercial misfeasance in their resident countries) or corruption, and in this way they move their capital around the world, hiding the trace of funds until final integration occurs in one of their numerous companies abroad.



CTF TEAM

The CTF Team worked with other authorities in 2019 on removing Serbia from FATF list of jurisdictions with strategic deficiencies in the AML/CFT systems. Thus the CTF Team was engaged in national risk assessment (IO 1), supervision (Immediate Outcome IO 1), targeted financial sanctions for terrorism and proliferation of WMD and monitoring of the NPO sector for potential TF abuse (IOs 10 and 11). In addition to FATF delisting, the CTF Team also contributed to the activities resulting in the Moneyval December 2019 re-rating, i.e. upgrades on FATF Recommendations on TF and WMD (5, 6, 7 and 8).

As on 31 December 2019, 90% of the activities listed in the 2018 NRA Action Plan have been completed. The outstanding activities became part of the Action Plan for implementing the national Strategy Against Money Laundering and Terrorism Financing (2020-2022). In this way momentum generated at the time of the intensive AML/CFT reforms while on the FATF ICRG grey list has been kept.

CFT Team staff took part in the development of the national Strategy against Money Laundering and Terrorism Financing (2020-2024), whose overall objective is to protect fully the economy and financial system against the threat of money laundering, terrorism financing and proliferation of weapons of mass destruction, where the integrity of financial and non-financial sector is strengthened through public-private partnerships and risk based approach, and safety, security and rule of law are contributed to.

In cooperation with the relevant anti-terrorist authorities, the APML developed a TF Typologies document. The document attempts to identify circumstances which may constitute indicators for the situations of money transfers whose aim is to conduct terrorist activities or are intended for further TF-related activities.

In order to raise awareness on the risks of abuse of NPOs for terrorism financing purposes, the APML continued organising outreach to non-governmental organisations, together with the Government's Office for Cooperation with Civil Society, AML/CFT Coordination Body and specific NPOs. In April 2019 a training event was held in order to improve knowledge about and build capacities of NPOs for protecting themselves against the risks of potential abuse for terrorist financing purposes. Specific mechanisms and tools have been presented. A brochure on *Preventing terrorism financing: a Donor's Guide* was developed with the same objective and presented to the donor community on 19 November 2019.



A series of training sessions, organised as part of OSCE's Support of prevention of violent extremism and terrorism in Serbia, were held for NPO sector supervisors and members of the Working Group for supervision of NPOs, where representatives of CFT Team actively participate.

In 2019 the Working Group amended its Procedures and Criteria for Conducting Supervision of NPOs in line with newly identified trends and findings of the inspections carried out to date.

In addition, the *Methodology for Exercising On-Site Supervision of NPOs* has also been developed.

Other forms of interagency cooperation

In addition to taking part in developing the relevant strategic documents, the CTF Team had an intensive cooperation with the Security Information Agency and the MoI Service for Combating Terrorism and Extremism in terms of gathering and analysing financial intelligence on persons suspected to be involved in terrorist activities.

In 2019, the CFT Team sent 6 requests and 16 disseminations related to 10 cases to the Security and Information Agency, and 6 requests and 15 disseminations from 8 cases to the MoI Service for Combating Terrorism. All requests received from Security Information Agency and Service for Combating Terrorism were responded to in time.

Cooperation with foreign FIUs

In 2019, CFT Team sent 1 request and 1 spontaneous dissemination to foreign FIUs on suspicion that the persons identified in the disseminations were linked to terrorist financing and radical extremism leading to terrorism.

Foreign FIUs sent 3 requests and 1 spontaneous dissemination to the APML, where the persons identified were suspected to be implicated in terrorism.

Analysis of STRs

CFT Team has analysed all SARs submitted by money transfer agents (Post Office, payment institutions and banks providing this service) and disseminated its analyses to security services. In 2019, 891 SARs were received and analysed.

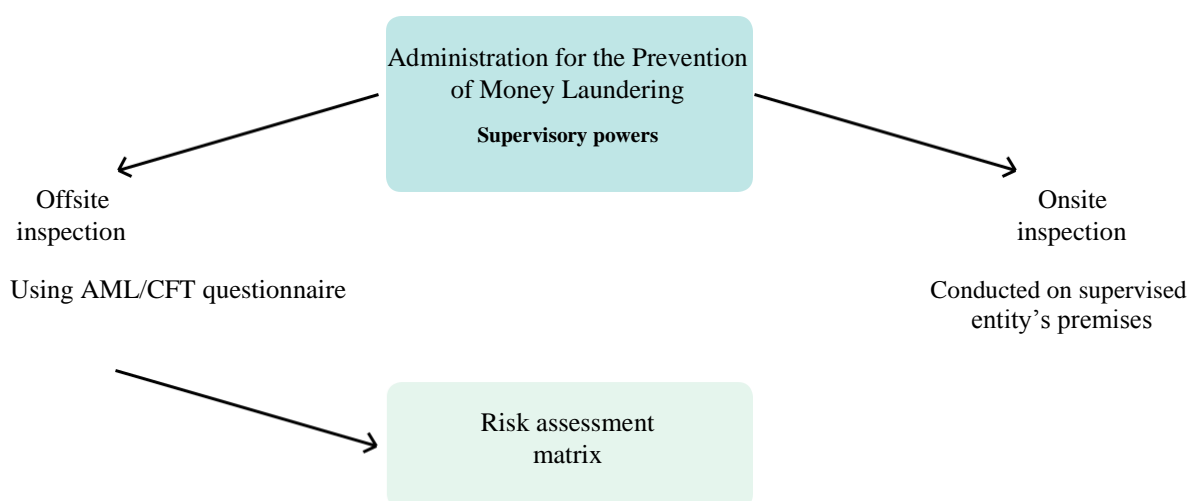
Obligated entities filed 22 TF-related SARs. Sixteen of them were related to ongoing cases, whereas 6 SARs initiated the opening of new cases, which are now active.



AML/CFT SUPERVISION OF ACCOUNTANTS, AUDITORS, AND FACTORING COMPANIES

In 2019, APML conducted off-site and on-site supervision of the following obliged entities on the basis of Article 104, paragraph 1, item 1) and Articles 105-108 of the AML/CFT Law (Official Gazette of RS, 113/17):

1. auditing companies and independent auditors,
2. entrepreneurs and legal persons providing accounting services,
3. factoring companies.



In addition, supervision included off-site inspection of legal persons and entrepreneurs providing accounting services in the implementation of Law on Freezing of Assets with the Aim of Preventing Terrorism and Proliferation of Weapons of Mass Destruction (Official Gazette of RS, 29/15, 113/17 and 41/18, hereinafter: LAF).³

³)Off-site inspection of the implementation of Law on Freezing of Assets with the Aim of Preventing Terrorism and Proliferation of Weapons of Mass Destruction (Official Gazette of RS, 29/15, 113/17 and 41/18) was conducted only on legal persons and entrepreneurs providing accounting services, as it was already conducted on all registered auditing companies and factoring companies in 2018, and newly established obliged entities received a written communication on legal duties that they had according to the Law.



Off-site inspection is conducted by sending a questionnaire on supervised entity's AML/CFT activities (AML/CFT Questionnaire), and a Questionnaire on the activities taken under the LAF (LAF Questionnaire). The answers are then analysed and additional clarifications and information obtained. In the case of entrepreneurs and legal persons engaging in the accounting business, the criterion based on which the APML identifies the obliged entities to which it will send the AML/CFT Questionnaire is the number of employees and net profit of the legal person/entrepreneur. The AML/CFT Questionnaire was sent to all auditing and factoring companies registered in Serbia. There were 73⁴ auditing companies and 17⁵ factoring companies in Serbia in 2019, three of which were newly established companies, one company in bankruptcy, one in liquidation and one only engaged in the collection of debts.

Onsite supervision is conducted by inspecting general and individual acts, records and documentation, as well as business books, extracts from accounts, correspondence and other documents on the supervised subject's premises or those of the entity directly or indirectly related to the supervised subject, by taking statements from the responsible person or other supervised subject's employees, as well as by requesting information from state authorities and holders of public authority and inspecting documentation.

The 2019 Onsite Inspection Plan was developed using a risk-based approach. This means that the obliged entities that are assessed as exposed to a higher ML/TF risk in their registered business will be prioritised accordingly when fixing the Inspection Plan timetable.

The following elements were used as criteria for assessing the exposure to ML/TF risk:

1. Findings from ML National Risk Assessment. The 2018 NRA has found, in terms of sectoral ML exposure, that auditors were exposed to a medium to low ML threat, accountants to medium to high and factoring companies to a low ML threat. From the point of view of sectoral vulnerability, the auditing sector was classified as low vulnerability group, accounting sector as medium vulnerability (compared to other DNFBPs), and the factoring sector as low vulnerability group (compared to other financial sectors);
2. Offsite inspection findings. Where an offsite inspection reveals certain irregularities, the onsite inspection will be used to verify the factual situation;
3. Number of obliged entity employees;
4. Obligated entity's annual income;
5. Information the APML received from other state authorities and anonymous persons;
6. Information obtained from APML's databases.

4) Information above has been taken from the Chamber of Certified Auditors' website
https://www.kor.rs/registri_preduzeca.asp

5) Information above has been taken from the Business Registers Agency's website –
<http://pretraga2.apr.gov.rs/FactoringList>



When conducting inspections, APML inspectors look at what kind of AML/CFT actions and measures the obliged entities take. Onsite inspection covers, as a minimum:

1. Verifying whether the obliged entity has fulfilled the obligation to develop a risk analysis in line with the ML/TF Risk Assessment Guidelines, in following aspects: a) risk analysis of its entire business, and b) risk analysis for each group or type of client and/or business relationship, or service that the obliged entity provides as part of their business;
2. Verifying whether the obliged entity perform AML/CFT actions and measures before, during the course of, and after the establishment of a business relationship and whether the obliged entity in particular has:
 - applied CDD, i.e. whether they have identified and verified the identity of the customer and established the identity of the legal representative and beneficial owner;
 - sent information, documentation and data to the APML;
 - appointed a compliance officer and his/her deputy to carry out certain actions and measures for the prevention and detection of money laundering and terrorism financing, and a member of the senior management responsible for AML/CFT, and whether they provided the APML with the act appointing the above persons within the statutory timeframe;
 - developed an annual staff training programme and implemented it, i.e. whether it has provided for professional training of its employees;
 - conducted regular internal audit of compliance with the AML/CFT Law and whether they prepared an audit report conducted and action taken following the audit within the statutory timeframe;
 - developed a list of indicators for identifying suspicious transactions;
 - kept records, protected and stored data that is part of such records;
 - taken other measures under the AML/CFT Law, such as introducing in an internal act a procedure to establish whether a client or the beneficial owner is an official (PEP), or whether a client or a legal person in the ownership structure of the client is an off-shore company, etc.

Off-site inspection in 2019

APML conducted offsite inspections of auditing companies, entrepreneurs (sole traders)/companies providing accounting services and factoring companies by sending out an AML/CFT compliance questionnaire and analysing the answers received. In addition, APML also conducted offsite inspections of entrepreneurs/companies providing accounting services by sending out the LAF Questionnaire.



The questions in the AML/CFT Questionnaire are divided in five sections seeking the following: obliged entity general information, information on obliged entity activities, about obliged entity's clients, about reporting to the APML and about other actions taken by the obliged entity. The questions in the LAF Questionnaire are divided into two sections - general information on the obliged entity and activities of the obliged entity.

In 2019, there were 73 auditing companies in Serbia. The APML sent out the AML/CFT Questionnaire in 2018 to all registered accounting companies and set a 20-day deadline for replies.

Sixty-six auditing companies were subject to offsite inspection, and the inspection of one of these companies will also continue in 2020, so in 2019 offsite inspection was completed for 65 auditing companies. In addition, APML reached out to newly established auditing companies and set them guidelines on how to comply AML/CFT Law (Official Gazette of RS, No. 113/17).

The total number of sole traders (entrepreneurs) and legal entities providing accounting services in Serbia in 2019 was over 7500. Offsite inspections were carried out throughout 2019 on various criteria. This was done using the AML/CFT Questionnaires. 295 entrepreneurs and companies providing accounting services were covered by offsite supervision in 2019⁵. Along with the AML/CFT Questionnaire, these entities also received a letter informing them of their obligations under the AML/CFT Law and were given a 20-day deadline to respond to the questionnaire. Of the total number of accounting services providers sampled for inspection, 56 were entrepreneurs (sole traders) and 234 were legal entities i.e. limited liability companies. 5 of them were general partnerships. In 2019, offsite inspection of 208 entrepreneurs and companies providing accounting services was completed, whereas it is still under way in 87 and will therefore continue throughout 2020.

In addition, in 2019 offsite inspection of accounting services providers also included sending the LAF Questionnaire.

In 2019, 207 offsite inspections were initiated with regard to LAF.

⁵) Moreover, six accountants submitted to the APML filled-out questionnaire on their own initiative.



In 2019, offsite inspection of 139 entrepreneurs and companies providing accounting services was completed. Inspections are still under way for 68 of them and will continue throughout 2020.

The total number of factoring companies registered in the Business Registers Agency in 2019 was 17, while at the time of sending AML/CFT questionnaire the total number was 16.

Factoring companies were also subject to offsite inspection and were sent AML/CFT questionnaire, with a deadline of 20 days to respond. In 2019 one factoring company was in bankruptcy, one in liquidation, and one factoring company notified the APML that it had terminated its engagement in the factoring services and that it only conducted collection of claims. There was one new factoring company which was reached out to and sent guidelines on how to comply with the AML/CFT Law and regulations. Therefore, offsite inspection was completed for 12 factoring companies in 2019.

APML also reached out to its supervised entities and informed them in writing that the APML has a new and improved website where they could find necessary reading materials, such as AML/CFT legislation, ML/TF Risk Assessment Guidelines, indicators of suspicion and recommendations on STR reporting. Supervised entities were also invited to pay attention to the National ML/TF Risk Assessment Summary, which was published on APML website and could be downloaded from <http://www.apml.gov.rs/cyr/file/?conid=2254> (list of APML outreach documents: ON-000120-0001/2018 of 7 September 2018⁷, ML/TF Indicators: ON-006801-0001/2019 of 3.1.2019 for auditors, Directive on ML/TF Indicators: ON-000130-0002/2018 of 28.12.2018 for accountants, and ML/TF Indicators: ON-000130-0001/2018 of 28.12.2018 for factoring companies, to be applied as of 15 January 2019, and STR reporting guidelines for accounting services providers and auditing companies: ON-000102-0025/2015 of 11.9.2015. Obligated entities were also notified about the publication of the 2018 Summary on the APML website at <http://www.apml.gov.rs/cyr/file/?conid=2254>.

⁶⁾ Newly established companies were informed of the adoption of AML/CFT Law and Guidelines.



From February to April 2019 APML conducted an analysis of cross-border threats with regard to supervised entities on the basis of information it received about the countries where clients had their registered offices (inclusive to 31/12/2017 and 31/12/2018), as well as about the countries in which their clients had their business activities. From the end of August to the end of September 2019 APML sent requests to its supervised entities, asking for additional data with regard to a level of risk under which clients were classified inclusive to 31/12/2018 on the basis of risk analysis referred to in Article 6 of AML/CFT Law, as well as verifying if a trust was present in a client's ownership structure.

The analysis of cross-border threats will be conducted in 2020 as well.

On-site supervision in 2019

In 2019, the APML conducted seven onsite inspections. One on-site inspection was conducted in an auditing company, and additional six in legal persons providing accounting services.

Irregularities were found as a result of six on-site inspections. One inspection ended in making a report and issuing a decision on termination.

The total of 71 economic offences was identified in on-site inspection in 2019, namely:

- Five supervised entities failed to conduct a ML/TF risk analysis of their entire business and of their clients, which they were required to do in line with the Guidelines, which constitutes a violation of Article 6 of AML/CFT Law and the economic offence referred to in Article 118, para 1, item 1 and of para 2 of AML/CFT Law;
- Three supervised entities failed to establish and verify the identity of clients and/or representatives and/or beneficial owners when establishing business relationship and/or they established business relationship with a client without having established or verified the identity of the client, and/or of the representative and/or the beneficial owners, which constitutes a violation of Article 8, para.2 and Article 10, para. 1 of AML/CFT Law which was in force at that time, and Articles 7 and 9 of AML/CFT Law and the economic offence referred to in Article 88, para.1, point 3) and para.2, of AML/CFT Law which was in force at the time the economic offence was committed, and Article 118, para.1, item2) and para.2 of AML/CFT Law;



- One supervised entity failed to establish and verify the identity of clients - entrepreneurs - by obtaining all required data, which constitutes a violation of Article 19, para.1 of AML/CFT Law and the economic offence referred to in Article 118, para. 1 item 16) and para. 2 of AML/CFT Law;
- Five supervised entities failed to establish and verify the identity of clients chosen by random sample, in line with Article 20, para.2 of AML/CFT Law, clients being legal person, which constitutes the economic offence referred to in Article 119, para.1, item 3) and para.2 of AML/CFT Law;
- Five supervised entities failed to establish and verify the identity of clients chosen by random sample, in line with Article 21, para. 2 of AML/CFT Law, clients being legal person, which constitutes the economic offence referred to in Article 119, para.1, item 5) and para. 2 of AML/CFT Law;
- Five supervised entities failed to establish and verify the identity of clients chosen by random sample, in line with Article 25, para. 2 of AML/CFT Law, clients being legal person, which constitutes the economic offence referred to in Article 119, para.1, item 5) and para. 2 of AML/CFT Law;
- Five supervised entities failed to establish a procedure for determining if a client or the beneficial owner of a client is an official (a PEP), which constitutes a violation of Article 38 of AML/CFT Law and the economic offence referred to in Article 118, para. 1, item 34) and para. 2 of AML/CFT Law;
- Two supervised entities failed to establish a procedure for determining if a client or a legal person appearing in the client's ownership structure is an offshore legal person, which constitutes Article 40, para.1 of AML/CFT Law and the economic offence referred to in Article 118, para.1, item 37) and para. 2 of AML/CFT Law;
- Six supervised entities failed to appoint compliance officer and/or their deputy, which constitutes violation of Article 39 of AML/CFT Law which was in force at the time the offence was committed, and/or Article 49 of AML/CFT Law and the economic offence referred to in Article 88, para.1, item 30) and para.2 of AML/CFT Law which was in force at the time the offence was committed, and/or Article 118, para. 1, item 46) and para. 2 of AML/CFT Law;
- Six supervised entities failed to submit the name and position title of the compliance officer and/or their deputy, as well as the name of the senior management responsible for the implementation of the Law, which constitutes a violation of Article 42 para 3 of the AML/CFT which was in force at the time of committing the offence, and/or Article 52, para.3 of AML/CFT Law and the economic offence referred to in Article 89, para.1 item 8) and para.2 of AML/CFT Law which was in force at the time of committing the offence, and/or Article 119, para.1, item 15) and para.2 of AML/CFT Law;

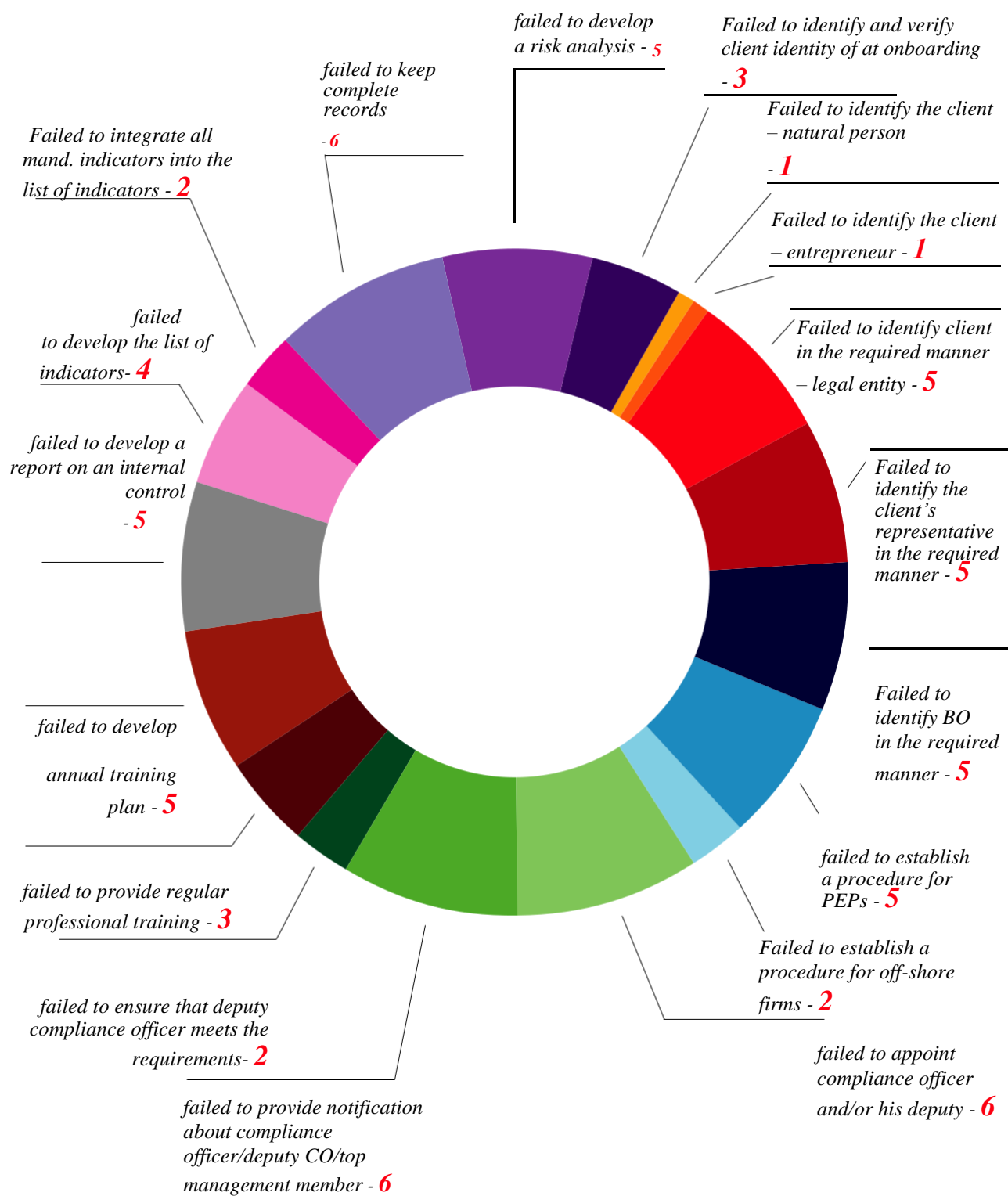


- Two supervised entities failed to ensure that the position of deputy compliance officer be held by a person meeting prescribed requirements, which constitutes a violation of Article 40 of AML/CFT Law which was in force at the time the offence was committed, and/or Article 50 of AML/CFT Law and the economic offence referred to in Article 88, para.1, item 30a) and para. 2 of AML/CFT Law which was in force at the time the offence was committed and/or the economic offence referred to in Article 118, para.1 item 47) and para. 2 of AML/CFT Law;
- Three supervised entities failed to provide regular training for the staff working on the prevention of money laundering and terrorism financing, which constitutes a violation of Article 53 para.1 and para. 2 of AML/CFT Law and the economic offence referred to in Article 119, para.1 item16) and para.2 of AML/CFT Law;
- Five supervised entities failed to develop an annual staff training programme, which constitutes a violation of Article 53, para.3 of AML/CFT Law and the economic offence referred to in Article 119, para.1 item17) and para.2 of AML/CFT Law; ‘ ‘
- Five supervised entities failed to conduct regular internal control and make the annual report on the internal control and measures taken afterwards, which constitutes a violation of Article 54 of AML/CFT Law and the economic offence referred to in Article 5119, para. 1 item 18) and para.2 of AML/CFT Law;
- Four supervised entities failed to develop a list of indicators for identifying persons and transactions for which there are reasons to suspect money laundering or terrorism financing, which constitutes a violation of Article 69, para. 1 of AML/CFT Law and the economic offence referred to in Article 118, para. 1, item 48 and para.2 of AML/CFT Law;
- Two supervised entities failed to include compulsory indicators into the list of indicators for identifying persons and transactions for which there are reasons to suspect money laundering or terrorism financing, which constitutes a violation of Article 69, para. 1 of AML/CFT Law and the economic offence referred to in Article 118, para. 1, item 50 and para.2 of AML/CFT Law;
- Six supervised entities failed to ensure that client and business relationship records contain all required data, which constitutes a violation of Article 99, para.1 of AML/CFT Law and the economic offence referred to in Article 118, para. 1, item 53) and para.2 of AML/CFT Law.

Upon conducting the onsite inspections on the premises of the supervised entities, APML inspectors continued inspection-related activities on APML premises, and produced relevant reports, which were sent to the supervised entities for comments within a set deadline. One supervised entity provided relevant comments.

After the deadline for comments expired APML filed five reports for economic offence, one of which was filed against an entity the inspection of which began in 2018 and continued in 2019. Two of these reports will be filed in 2020.

The chart showing the economic offences found in 2019 in accounting services providers





COURT DECISIONS

In terms of feedback, Belgrade Commercial Court notified to the APML one judgment in a economic offence case which became final in 2019. The judgment convicted the legal entity providing accounting services to a single fine of RSD 310,000 and the responsible person in this legal entity to a single fine amounting to RSD 60,000.

Fines were imposed for the individual economic offences committed, as follows:

1. For the economic offence stipulated in Article 88, para 1, item 1) and para 2 of the AML/CFT Law (Official Gazette of RS, Nos. 20/09, 72/10, 91/10 and 139/14), whereby Article 7, para 1 of the AML/CFT Law was violated, due to failure to develop an ML/TF risk analysis in line with APML Guidelines, an individual fine of RSD 50.000,00 was imposed on the accused legal entity and RSD 10.000,00 on the accused responsible person within the legal entity (EUR 422,46 and EUR 84,49 respectively);
2. For the economic offence stipulated in Article 88, para 1, item 9) and para 2 of the AML/CFT Law (Official Gazette of RS, Nos. 20/09, 72/10, 91/10 and 139/14), whereby Article 15, para 2 of the AML/CFT Law was violated, due to failure to identify and verify the identity of the client which is a legal entity in an appropriate manner, an individual fine of RSD 50.000,00 was imposed on the accused legal entity and RSD 10.000,00 on the accused responsible person within the legal entity (EUR 422,46 and EUR 84,49 respectively);
3. For the economic offence stipulated in Article 88, para 1, item 30) and para 2 of the AML/CFT Law (Official Gazette of RS, Nos. 20/09, 72/10, 91/10 and 139/14), whereby Article 39 of the AML/CFT Law was violated, due to failure to appoint compliance officer and deputy compliance officer, an individual fine of RSD 50.000,00 was imposed on the accused legal entity and RSD 10.000,00 on the accused responsible person within the legal entity (EUR 422,46 and EUR 84,49 respectively);
4. For the economic offence stipulated in Article 89, para 1, item 9) and para 2 of the AML/CFT Law (Official Gazette of RS, Nos. 20/09, 72/10, 91/10 and 139/14), whereby Article 43, para 1 of the AML/CFT Law was violated, due to failure to provide regular training to the staff, an individual fine of RSD 30.000,00 was imposed on the accused legal entity and RSD 5.000,00 on the accused responsible person within the legal entity (EUR 253,48 and EUR 42,25 respectively);
5. For the economic offence stipulated in Article 89, para 1, item 10) and para 2 of the AML/CFT Law (Official Gazette of RS, Nos. 20/09, 72/10, 91/10 and 139/14), whereby Article 43, para 3 of the AML/CFT Law was violated, due to failure to develop an annual training programme,



an individual fine of RSD 30.000,00 was imposed on the accused legal entity and RSD 5.000,00 on the accused responsible person within the legal entity (EUR 253,48 and EUR 42,25 respectively);

6. For the economic offence stipulated in Article 88, para 1, item 32) and para 2 of the AML/CFT Law (Official Gazette of RS, Nos. 20/09, 72/10, 91/10 and 139/14), whereby Article 44 of the AML/CFT Law was violated, due to failure to provide regular internal control of AML/CFT activities, an individual fine of RSD 50.000,00 was imposed on the accused legal entity and RSD 10.000,00 on the accused responsible person within the legal entity (EUR 422,46 and EUR 84,49 respectively);
7. For the economic offence stipulated in Article 88, para 1, item 33) and para 2 of the AML/CFT Law (Official Gazette of RS, Nos. 20/09, 72/10, 91/10 and 139/14), whereby Article 50 of the AML/CFT Law was violated, due to failure to develop a list of indicators for recognising persons and transactions suspected to be laundering money or financing terrorism, an individual fine of RSD 50.000,00 was imposed on the accused legal entity and RSD 10.000,00 on the accused responsible person within the legal entity (EUR 422,46 and EUR 84,49 respectively);

Individual fines for the committed economic offences are as follows:

	Violation of Art. Economic offence	Fine in RSD		Fine in EUR	
		Legal person	Responsible person	Legal person	Responsible person
1.	Art. 7, para 1/Art. 88 para 1. item 1) and para 2	50.000,00	10.000,00	422,46	84,49
2.	Art. 15. para 2./ Art. 88, para 1. item 9) and para 2.	50.000,00	10.000,00	422,46	84,49
3.	Art. 39./ Art. 88. para 1, item 30) and para 2.	50.000,00	10.000,00	422,46	84,49
4.	Art. 43 para 1/ Art. 89. para 1. item 9) and para 2	30.000,00	5.000,00	253,48	42,25
5.	Art. 43 para 3./ Art. 89. para 1. item 10) and para 2.	30.000,00	5.000,00	253,48	42,25
6.	Art. 44/ Art. 88. para 1, item 32) and para 2.	50.000,00	10.000,00	422,46	84,49
7.	Art. 50/ Art. 88. para 1. item 33) and para 2.	50.000,00	10.000,00	422,46	84,49
SINGLE FINE AMOUNT:		310.000,00	60.000,00	2.619,26	506,95

The table below shows individual fines for economic offences found in the judgment of the competent commercial court in relation to the supervised entity referred to in the narrative part





PROJECTS

EU Support to Serbia in Prevention of Money Laundering Project aims to support Serbia's AML/CFT efforts by enhancing the quality and quantity of SARs and Serbian FIU's core functions. It also aims to improve interaction with the preventive and law-enforcement segments of the AML/CFT system, and Serbian AML/CFT system's compliance with the international standards.

The project is funded by the EU and implemented by a consortium lead by KPMG doo Belgrade. It started in November 2018 and ends in November 2020.

Serbian FIU is the main beneficiary of the project but other key AML/CFT stakeholders too benefit from it. In cooperation with all stakeholders the project has so far supported organisation of more than 30 info sessions and events attended by more than 1,350 participants.

The main topics addressed included presentation of the 2018 National Risk Assessment, ML/TF typologies and trends, Guidelines for ML/TF reporting and tracking of ML/TF cases, and capacity building for the APML, AML/CFT supervisors, officers of the police, prosecutors' offices and courts.

The Project also supported the drafting of legislation and policy documents (e.g. amendments to the AML/CFT Law and new national AML/CFT Strategy) and communication of the progress made to relevant international organisations.

In cooperation with expert teams comprising the staff of various authorities, the project supported the development of a number of publications, including the ML and TF typologies documents, National Risk Assessment document and NPO Donor's Guide.

The project has also been involved in improving APML's internal ICT system and development of the new APML website and web application for monitoring ML/TF cases which is at the testing stage.



HUMAN RESOURCES AND TRAINING

In addition to the positions of the acting director and two acting assistant directors, who were appointed by the Government, the Rulebook on the internal organisation and classification of jobs in the APML, provides for 34 posts to be filled with 42 civil servants.

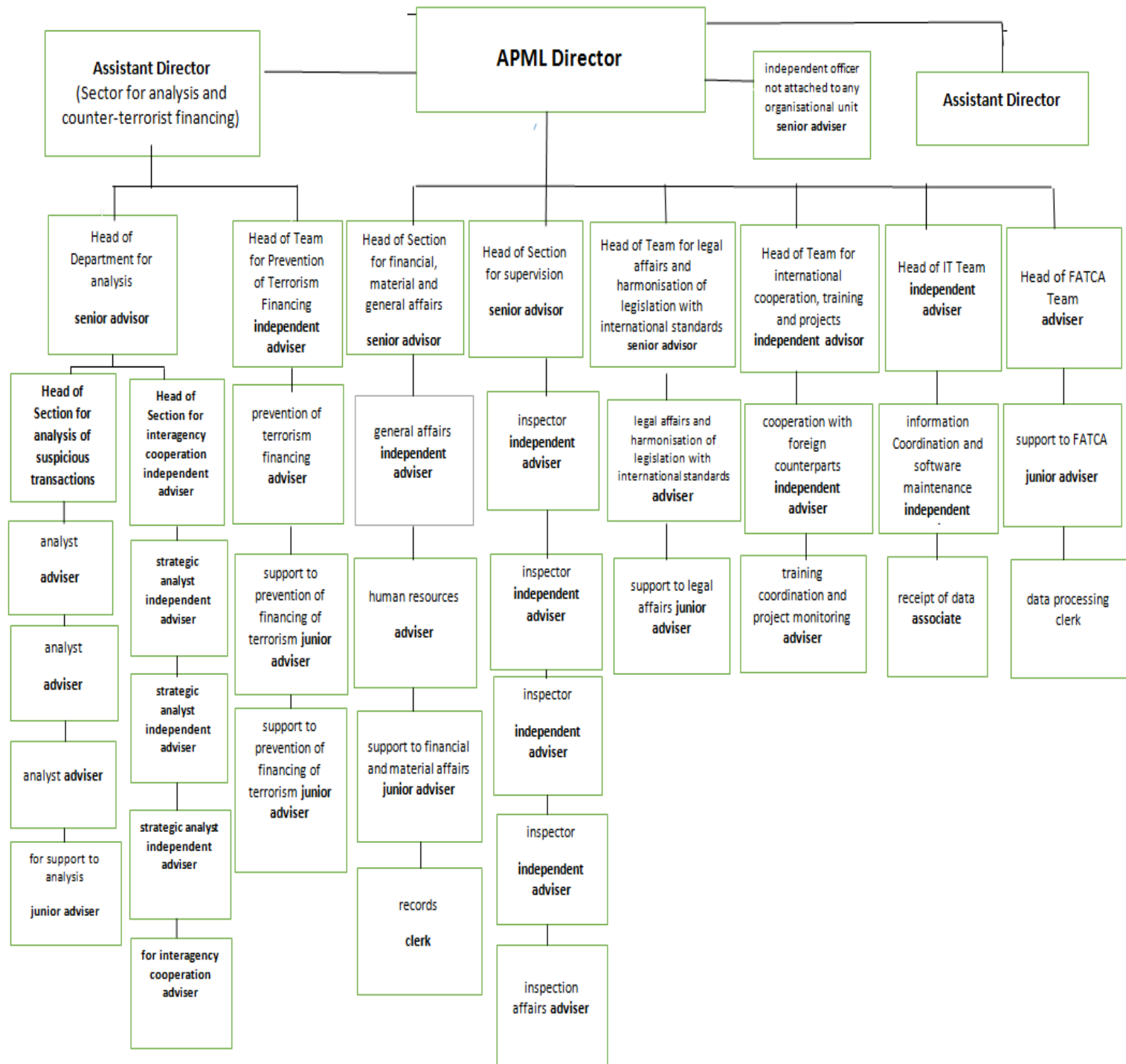
Of the above number of envisaged positions (42), 34 staff members are currently employed, meaning that 80.95% of the APML's HR capacities were filled as at the end of 2019.

Structure of APML staff

Year	Number of employees	Qualification		
		higher education	2-year post-secondary	secondary
2019	34 (31 + 1 on leave of absence)	32	1	1

The table shows that on 31 December 2019, the APML had 33 employees (31 employees with an indefinite-term contract + 3 Government-appointees + 1 leave of absence = 34 civil servants altogether), of which 32 with a university degree, 1 employee with a 2-year post-secondary education and 1 employee with secondary education. This shows the APML has highly qualified staff, with 94.10% of all staff having university-level qualifications. The data above shows that despite the high-quality of the APML staff structure, which meets the needs of a financial intelligence unit, it also shows the APML lacks sufficient human resources which is why in 2019 the APML recruited 5 more staff members under a temporary contract and 1 staff member to replace an absent civil servant.

APML Organigram





In 2019, APML staff took part in the following activities:

	Training event title (topic)*	Event held from-to	Number of participants	Venue	Organiser
1.	Development of an AML training curriculum	29-30.1.2019	2	Vršac	OPDAT
2.	Seminar on criminal intelligence analysis	04.02-08.02.2019	1	Ankara, Turkey	UNODC
3.	International Cooperation in AML/CFT	04.02-08.02.2019	3	Belgrade	CEPOL
4.	ORBIS Training	05.02.2019	2	Belgrade, Prag Hotel	Bureau van Dijk
5.	Data processing and analysis	06.02-07.02.2019	1	Belgrade	Ministry of Justice
6.	National risk assessment findings; compliance with AML/CFT Law and LAF - for accountants	19.2.2019	3	Niš	SCCI
7.	Abuse of NPOs for TF	25.02–01.03.2019	1	Tivat, Montenegro	UNODC
8.	Regular annual meeting with banking compliance officers	19.3.2019	3	Belgrade, Association of Serbian Banks	UBS, NBS
9.	RISK Conference on Cyber-Security	20-21.3.2019	1	Laško, Slovenia	REAL Security doo Maribor
10.	Towards more efficient inspections - legal framework for supervisory inspection (implementation of the Law on Supervisory Inspection, Law on General Administrative Procedure, and Law on Misdemeanours)	21-22.3.2019	4	Belgrade	NAPA
11.	National risk assessment findings; compliance with AML/CFT Law and LAF - for accountants	22.3. 2019	3	Kruševac	SCCI
12.	Joint FATF/Moneyval Experts Meeting and TF Prosecution Workshop	24-27.3.2019	1	Tel Aviv, Israel	FATF/Moneyval/Ministry of Justice of Israel
13.	Consultations - Guidelines for identifying beneficial owners and Guidelines for recording BOs in the Centralised Records of BOs	26.3.2019	6	Belgrade,	Serbian Chamber of Commerce and Industry
14.	6th iProceeds Project steering committee meeting (Targeting crime proceeds on the internet)	29.3.2019	1	Bucharest, Romania	iProceeds Project
15.	Development of the money laundering and terrorist financing typologies document	1-5.4.2019	2	Šabac	EU IPA 2015 AML/CFT Project in Serbia



	Training event title (topic)*	Event held from-to	Number of participants	Venue	Organiser
16.	Terrorist financing risks	4-5.4.2019	1	Bečići, Montenegro	UNODC
17.	Case simulation exercise on cybercrime and financial investigations (iProceeds)	8-11.4.2019	1	Belgrade	iProceeds Project
18.	Anticorruption forum on the implementation of the Law on Organisation and Competences of State Authorities in Suppressing Organised Crime, Terrorism and Corruption	10. 4. 2019	2	Niš	Project Against Corruption (IPA 2013), Ministry of Justice, Judicial academy
19.	Communication skills and professional conduct by inspectors	15-16. 4. 2019	3	Belgrade, Palata Srbija	NAPA
20.	Mid-term planning	17. 4. 2019	1	Belgrade, Palata Srbija	NAPA
21.	Planning, drafting and implementation of legislation	18-19. 4. 2019	2	Belgrade, Palata Srbija	NAPA
22.	Rights and obligations of entities undergoing supervisory inspection	25. 4. 2019	1	Belgrade, Palata Srbija	NAPA
23.	ML/TF NRA training for prosecutors, judges and police officers	17. 5. 2019	1	Kraljevo	EU IPA 2015 AML/CFT Project in Serbia
24.	ML/TF NRA training for prosecutors, judges and police officers	24. 5. 2019	1	Niš	EU IPA 2015 AML/CFT Project in Serbia
25.	Online training: Missing Trader Intra-Community Fraud (MTIC Fraud)	20.5–5.6.2019	1	online training	CEPOL
26.	Suppression of corruption in the public sector through effective implementation of financial investigations and seizure/confiscation of proceeds	21–23.5.2019	1	Zagreb, Croatia	OPDAT
27.	Training of trainers - financial investigations	21–24.5.2019	2	Belgrade	UNODC
28.	Presentation of the e-inspector software	24. 5. 2019	2	Belgrade, Enetel Solutions	Enetel Solutions
29.	Banking compliance function	30 -31. 5. 2019	3	Vrnjačka Banja	Association of Serbian Banks
30.	National ML/TF NRA, implementation of the AML/CFT Law, ML/TF Typologies	31. 5. 2019	1	Belgrade	Chamber of Licensed Auditors



	Training event title (topic)*	Event held from-to	Number of participants	Venue	Organiser
31.	Training on ML investigations, confiscation of proceeds from crime and tracking of proceeds from crime abroad	4-5.6.2019	3	Moscow, Russian Federation	Rosfinmonitoring
32.	Understanding virtual currencies in the context of suppressing ML	5 -6. 6. 2019	4	Belgrade, Hyatt Hotel	OSCE
33.	ACAMS certification	5.6.2019-7.6.2019	1	Belgrade, Inn Hotel	Supported by US Embassy in Belgrade
34.	Accounting and legal and regulatory aspects of financing of claims-factoring, presentation on ML, internal procedures related to AML/CFT Law, supporting sectoral guidelines and the Law on Freezing of Assets with the Aim of Preventing Terrorism and Proliferation of WMD (LAF), STR reporting, suspicion indicators and KYC procedures	6. 6. 2019	2	Serbian Chamber of Commerce and Industry	Belgrade Chamber of Commerce and Industry Factoring Section
35.	Seminar organised by Ministry of European Integration and French Embassy in Belgrade on AML (related to Negotiating Chapter 29)	6-7.6.2019	2	Belgrade, Customs Administration	Ministry of European Integration
36.	Webinar on Financial investigations with the aim of preventing TF	6. 6. 2019	3	online training	CEPOL
37.	Webinar on CTF	11. 6. 2019	2	online training	CEPOL
38.	ML/TF NRA training for prosecutors, judges and police officers	12.6.2019	1	Novi Sad	EU IPA 2015 AML/CFT Project in Serbia
39.	Study visit to Spain	17–20.6.2019	1	Madrid	UNODC
40.	Proactive investigation of corruption cases, financial fraud and economic crime - training for prosecutors, police investigators and joint investigative teams	19–21.6.2019	1	Vrnjačka Banja	OSCE
41.	ML/FT Typologies	1.7. 2018.	4	Belgrade	Serbian Chamber of Commerce and Industry
42.	National strategic dialogue on illicit trade in Serbia	1-4.7.2019	4	Novi Sad	Siracusa International Institute for Criminal Justice and Human Rights





	Training event title (topic)*	Event held from-to	Number of participants	Venue	Organiser
43.	NRA Training for accountants	8.7.2019	2	Pančevo	Serbian Chamber of Commerce and Industry
44.	Training for Market Inspectors	10.7.2019-11.7.2019	3	Belgrade	EU IPA 2015 AML/CFT Project in Serbia
45.	Presentation of ML/TF Typologies	3.9.2019-4.9.2019	3	Niš	EU AML/CFT Project in Serbia in cooperation with Judicial Academy and Serbian Chamber of Commerce and Industry
46.	Capacity building for FIUs and LEAs of SEE in the field of analysis and investigation of financial operations	9-13.9.2019	2	Moscow, Russian Federation	UNODC and Rosfinomonitoring
47.	Measuring and assessing organised crime in the Western Balkans	16-20.9.2019	2	Kumbor, Montenegro	UNODC
48.	ML related to cryptocurrency	16-20.9.2019	2	Tirana, Albania	CEPOL
49.	Compliance - Safe Business Guarantee	19.9.2019	1	Zagreb, Croatia	Institute for Compliance, Criminal Compliance & Anti-Money Laundering (ICCrA)
50.	ML risk assessment and AML/CFT oversight under the AML/CFT Law	30.9.2019	1	Belgrade	EU IPA 2015 AML/CFT Project in Serbia
51.	Compliance with the AML/CFT Law	3.10.2019	2	Vrnjačka Banja	Serbian Chamber of Commerce and Industry





	Training event title (topic)*	Event held from-to	Number of participants	Venue	Organiser
52.	ML risk assessment and AML/CFT oversight under the AML/CFT Law	4.10.2019	1	Belgrade	EU IPA 2015 AML/CFT Project in Serbia
53.	Regional conference on factoring in CEE and SEE	3-4.10.2019	1	Belgrade	FCI Project
54.	Round table: Fight against money laundering and terrorist financing	10.10.2019 10.12.2019	1	Vrnjačka Banja	2019 Judges' days - Annual conference of Serbian judges - Supreme Court of Cassation
55.	Training programme: Text processing (Word)	17.10.2019 18.10.2019	1	Belgrade	National Academy for Public Administration
56.	Panel discussion: RBA in supervision - practical aspects and exchange of information among supervisors, APML and judicial authorities	18.10.2019	2	Belgrade	EU IPA 2015 AML/CFT Project in Serbia
57.	CEPOL training course on financial investigations in the Western Balkans, Mock Trial	21.10.2019- 25.10.2019	2	Belgrade	CEPOL
58.	Compliance with the AML/CFT Law	25.10.2019	2	Belgrade	Chamber of Licensed Auditors
59.	Terrorist financing	5-6.11.2019	1	Belgrade	Military Intelligence Agency
60.	VAT Fraud	8.11.2019	1	Belgrade	OSCE
61.	Workshop on cross-border threats	12- 15.11.2019	5	Vršac	OSCE and AML/CFT EU Project in Serbia
62.	Seminar on terrorism financing	12- 15.11.2019	1	Skopje, North Macedonia	OPDAT
63.	Incorporation of the risks found under the 2018 NRA in ML/TF typologies, sectoral typologies, non-financial sector accountants, auditors, real estate). Identification of activities indicating ML, STRs, analysis	19. 11. 2019.	2	Belgrade	Serbian Chamber of Commerce and Industry





	Training event title (topic)*	Event held from-to	Number of participants	Venue	Organiser
64.	Panel discussion: Coordination of supervisors, AML and judicial authorities in detecting suspicious transactions	22.11.2019	1	Belgrade	EU IPA 2015 AML/CFT Project in Serbia
65.	Compliance with the AML/CFT Law, mandatory internal procedures and policies, examples of the acts (documents), documentation for identifying beneficial owners, risk analysis, RA guidelines, compliance with the Law on Freezing of Assets with the Aim of Preventing Terrorism and Proliferation of WMD	28.11.2019	3	Užice	Serbian Chamber of Commerce and Industry
66.	VAT Fraud	04.12 - 06.12.2019	2	Šabac	US Embassy
67.	IProceeds Project – closing conference	09.12 - 10.12.2019	1	Strasbourg, France	Council of Europe and European Union

ICT DEVELOPMENT

APML staff took part in the working group for establishing a single criminal intelligence system for interagency information exchange. The lead agency in this effort is the Ministry of the Interior. They were also active under the IPA project to enhance APML capacities and in the development of budget for projects planned in 2019.

The IT Team successfully relocated the entire APML IT system from 24 Masarikova St. to the new facility at the Government IT Office. It relocated databases and software applications to the new location, completed the system set up and tested its segments. It conducted the required system parameter re-configuration. Relocation was completed with no disruptions in APML operation.

After the relocation, optimisation of the IT system at 24 Resavska was started together with the set up of the secondary location having the disaster recovery and business community functions.

New data storage system was procured and data successfully migrated from the old system which was no longer supported by the manufacturer. The IT Team successfully implemented the local tax administration software application as an additional database the APML has access to in its operation.

The following is a list of other key activities performed in 2019:

- Creation of new and optimisation of current analytical procedures and reports used by APML staff in order to improve effectiveness and efficiency of APML staff.





- Screening and manual import of all incoming documents into the APML IT system and manual import of transaction reports received from certain obliged entities.
- Planning and projection of APML needs for IT equipment. Planning of depreciated equipment scrapping and planning of purchases of new equipment for new staff. Purchase of new work stations, printers and other equipment and their installation.
- Preparation of technical documentation and participation in the implementation of IT-related public procurements.
- Issuing of digital certificates to obliged entities for accession APML applications and administration of system users.
- Installation, configuration, extension of the current virtual infrastructure thereby increasing reliability of operation of the entire APML IT system.
- APML data safety and security was improved through installation of new devices and implementation of data protection procedures.
- Proactive action was taken with respect to global threats with the aim of protecting the APML IT system.
- APML website administration
- Supporting obliged entities in using APML's application for transaction reporting and exchange of documents, and management of user accounts and certificates for accessing them.
- Continuous monitoring, supervision and maintenance was carried out of the APML entire IT system in the operative state (databases, network infrastructure, application servers, applications, email servers, devices for protection of IT system from unauthorised access, backup copies of the system, data storage devices, virtual infrastructure), and ongoing work to improve its performance.



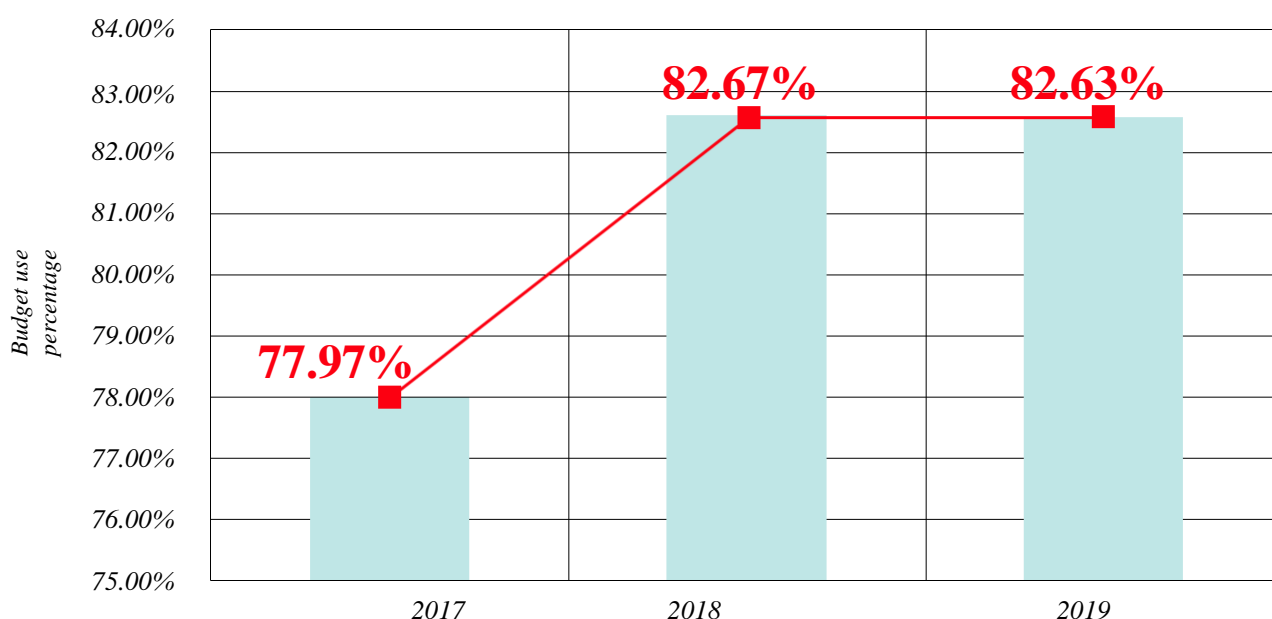
APML FINANCIAL OPERATIONS

The Team for material, financial and general affairs in 2019 successfully performed all activities aimed at preparing and developing the financial plan and thus ensured an efficient use of funds following the adoption of the 2019 Budget Law. Timely planning of finances has created the conditions for prompt financial accounting and bookkeeping through regular settlement of liabilities at the monthly and daily levels within the appropriate budget items, as well as use of the budget according to regulations as well as record keeping and reporting.

The 2019 Budget Law allowed a total of RSD 120,475,000 for APML operations to be financed by the Republic of Serbia budget. The execution of the current expenditure totals RSD 99,547,376. The difference between the allocated funds and the budget execution, occurred on the appropriation Employee salaries, benefits and compensations the reason being that the envisaged recruitment did not occur in 2019 as planned. The use of 2019 budget funds, in percentages, has remained almost the same as in the previous year amounting to 82.63% (chart 1) even though the other appropriations do not show any major discrepancies between the funds allocated and those executed.



Comparative overview of APML budget use



The section uses all active software applications enabling direct connection between the APML and other authorities concerning material and financial affairs in line with the Budget Accounting Decree and international accounting standards for the public sector.

The Ministry of Finance Internal Audit Section audited the APML operations from 24 September 2019 to 9 December 2019. The audit assessed the adequacy and effectiveness of the financial management and control system, analysed APML financial reporting for 2018 and all material financial reporting identification framework issues, APML planning process and transactions, i.e. a combined audit with elements of a system audit, and financial audit for 1 January to 31 December 2018 was conducted. The MoF internal audit gave a positive assessment of APML's operations.

Upon receiving of the audit report, the APML management took action with the aim of fulfilling the audit's recommendations by 31 December 2019 in line with the Recommendation Implementation Plan.

Based on a needs assessment and the 2019 Procurement Plan, passed in accordance with the Public Procurement Law, the Section successfully completed 28 public procurements, as follows: 20 procurements of goods and 8 procurements of services. Fourteen procedures were conducted as centralised procurements through the Government's Common Affairs Administration framework agreements, 5 were small-value procurement procedures and 1 involved a high-value procurement. Services were procured through centralised procedure in four cases, and four additional procurements of services were made through small-value procurement procedures. In this way



the required goods and services to support the APML's information system were obtained: software was purchased, licences extended, software maintenance and improvement secured as well as other necessary goods and services for regular APML operations. Each of the public procurements included an assessment of whether it was justified and purposeful respecting the principle of rational spending of public funds and control of expenditure. A new APML Directive on Public Procurements entered into force on 31 December 2019.

CHALLENGES AND OBSTACLES IN ACHIEVING OBJECTIVES

Lack of capacities in terms of human resources and an extremely wide remit of APML responsibilities is a problem for APML operation. More specifically, 34 civil servants are currently permanently employed. The European Commission and other international organisations following the money laundering area in Serbia, have drawn attention to the problem of the scarce APML resources particularly having in mind the various APML's responsibilities whose number is significantly higher than what international AML/CFT standards require of an FIU.

Further strengthening of interagency cooperation for a more efficient functioning of the entire AML/CFT system will be APML's priority for the future.



Administration for the Prevention of Money Laundering