



## **Project against Money Laundering and Terrorist Financing in Serbia**

### **MOLI Serbia**

DGI(2013) 29 September 2013

**TECHNICAL PAPER:  
Proposal for priorities in risk-based AML/CFT supervision  
for the National AML/CFT Strategy and Action Plan  
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ECCU-MOLI SERBIA-TP16-2013

September 2013

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## Executive Summary

The Serbian AML/CFT authorities recently prepared a National Risk Assessment (NRA). This NRA in combination with information from meetings with the authorities and general information on ML/TF risks is taken as the basis for the proposals for priorities for risk-based AML/CFT supervision.

According to the NRA, the real estate industry poses the highest ML risk, and banks, exchange offices and money transfers offices are assessed as high risk sectors. In addition, tax evasion, illicit production and circulation of narcotics and corruption are the criminal offences that pose the highest threats for money laundering.

The use of cash and legal entities where beneficial ownership is not easy to determine, are the main factors that contribute to ML risks. Investment in real estate is the main conduit used for ML. These general risk factors and threats are relevant for almost all supervisors to pay attention to in their risk-based supervision.

Supervisors can take a thematic approach to risk-based AML/CFT supervision, whereby the supervisor selects a risk area and for that risk area sets up a project to examine a group of obligors. A risk-based approach to inspections can also be adopted for individual obligors to examine specific issues in depth. Some of the threats and money laundering methods also call for coordinated action between several supervisors.

### Summary overview

| Sector                   | Risk areas to be paid attention to   |
|--------------------------|--|
| Banks                    | Loans, cash, beneficial owners of legal entities, real estate transactions   |
| Exchange offices         | Ownership of exchange offices (integrity of owners), connections of obligors to criminal organisations, suspicious transaction reporting |
| Real estate              | Non-reporting of suspicious transactions on real estate, chain of obligors involved in real estate transactions                          |
| Money transfers          | Customers connected to criminal organisations  |
| Online gambling          | Licensing of obligors, transaction analysis  |
| Capital market           | Intransparent ownership and unknown sources of funds, corruption   |
| Life insurance           | Customer due diligence, cash, awareness of agents  |
| Postal communications    | Gold smuggling   |
| Auditors and accountants | Accounting practices of clients  |

## Introduction

The Serbian government with assistance of the MOLI Project is currently preparing a National AML/CFT Strategy and Action Plan. This paper proposes priorities for the Serbian supervisory authorities in the area of risk-based AML/CFT supervision to be used for the national strategy and action plan. These proposals will have to be further elaborated by the supervisory authorities in inspection project plans as they have more insight into their working methods.

Proposals to focus AML/CFT supervisory efforts on are provided for several (but not all) sectors. The proposals are based on information in the National Risk Assessment (NRA), annual reports of the APML, typology reports from the FATF and other general information on ML/TF. The proposals are mainly for the banking sector, exchange offices, money transfers, and real estate as these are higher risk sectors according to the NRA. In addition, proposals are added for some other sectors, if based on the meetings that were held in February 2013 or information in the NRA, risk areas became apparent.

### Summary overview of risk areas

| Sector                   | Risk areas to be paid attention to   |
|--------------------------|--|
| Banks                    | Loans, cash, beneficial owners of legal entities, real estate transactions   |
| Exchange offices         | Ownership of exchange offices (integrity of owners), connections of obligors to criminal organisations, suspicious transaction reporting |
| Real estate              | Non-reporting of suspicious transactions on real estate, chain of obligors involved in real estate transactions                          |
| Money transfers          | Customers connected to criminal organisations  |
| Online gambling          | Licensing of obligors, transaction analysis  |
| Capital market           | Intransparent ownership and unknown sources of funds, corruption   |
| Life insurance           | Customer due diligence, cash, awareness of agents  |
| Postal communications    | Gold smuggling   |
| Auditors and accountants | Accounting practices of clients  |

## National Risk Assessment

Serbia has brought a large number of sectors under the AML/CFT Law.<sup>1</sup> The ML/TF risks in these sectors vary. In 2012/2013 the Serbian AML/CFT authorities prepared a National Risk Assessment of Money Laundering in the Republic of Serbia (NRA). This NRA is taken as the basis for the priorities for risk-based AML/CFT supervision proposed in this paper. The NRA of the financial sectors was performed for the banking sector, the securities sector, the insurance sector, financial leasing service providers, voluntary pension funds, exchange offices, factoring and forfeiting and money transfer agents. The NRA of ML risks in the non-financial sectors was made for the games of chance sector, auditors, accountants, lawyers and real estate agents.

The highest ML risk in the non-financial sector according to the NRA is in the real estate industry. And because most transactions, such as personal and business transactions, purchase of securities, real estate trade, go through banks, the banking sector is exposed to the highest ML risk.

In the NRA various sectors have been risk rated based on the vulnerabilities in these sectors.

| Sector  | Risk rating in the NRA |
|---|------------------------|
| Banks   | medium                 |
| Capital market  | medium-low             |
| Life insurance  | low                    |
| Licensed exchange offices   | medium                 |
| Money transfer  | medium                 |
| Factoring and forfeiting  | low                    |
| Voluntary pension funds   | low                    |
| Financial leasing companies   | low                    |
| Casinos   | medium                 |
| Organisation of games of chance via the Internet                              | medium-high            |
| Real estate agents and developers   | medium-high            |
| Lawyers engaged in activities related to managing the assets of their clients | medium-low             |
| Auditors  | low                    |
| Accountants   | medium-low             |

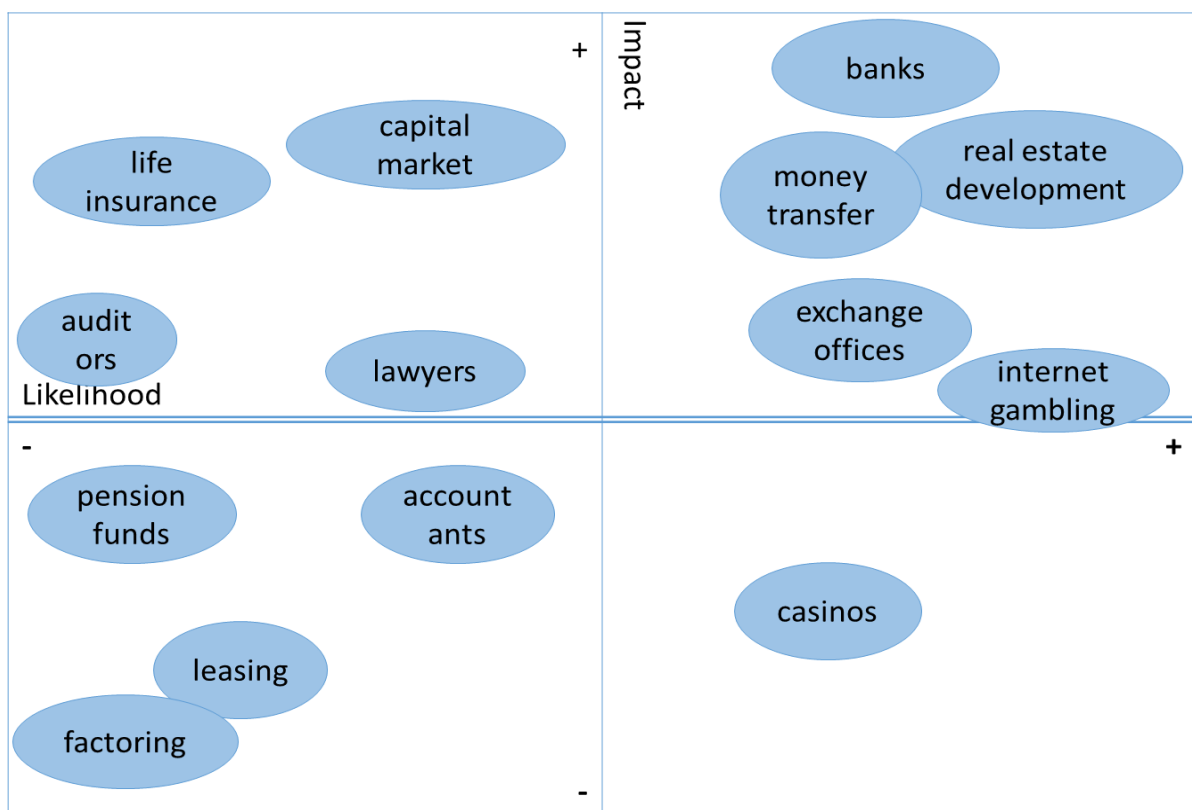
In addition, tax evasion, illicit production and circulation of narcotics and corruption (abuse of office) are mentioned in the NRA as the criminal offences that pose the highest threats for money laundering.

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<sup>1</sup> banks; licensed exchange offices; investment fund management companies; voluntary pension fund management companies; financial leasing providers; insurance companies, insurance brokerage companies and insurance agents licensed to perform life insurance activities; entities dealing with postal communications; broker-dealer companies; organisers of games of chance in casinos; organisers of games of chance on the internet, by telephone or in another way by using telecommunication networks; audit companies; certified auditors; legal entities and entrepreneurs engaged in the following professional activities: intermediation in real estate transactions, provision of accounting services, tax advising, intermediation in credit transactions and provision of loans, factoring and forfeiting, issuance of guarantees, provision of money transfer services.

The NRA does not rate the impact should in a sector ML or TF occur. There are different ways to consider the impact: the financial-economic and reputational impact on an obligor, on the sector, on the supervisor, and on Serbia. This rating will be subjective as it is difficult to quantify this impact. In general one can say that whenever the reputation will be damaged for a longer time, the impact will be higher. For instance, for some sectors, the impact will be higher if in the international context it is known that a sector can be misused for ML or TF. Supervisors can ask themselves the question “What would be the impact if the (international) media write that in a Serbian (non-)financial sector ML or TF occurs?”

An overview of several of the Serbian sectors under the AML/CFT Law that are addressed in the NRA could result in a matrix as below. On the basis of such a matrix it can be determined which sectors in which quadrant need more or less attention. The sectors in the upper right quadrant will need most frequent and intense attention, whereas the sectors in the lower left quadrant will need less frequent or less intense attention.



### Risk factors and threats

From the NRA some general risk factors and threats follow that will be relevant for almost all supervisors to pay attention to. The use of cash and legal entities where beneficial ownership is not easy to determine, are the main factors that contribute to money laundering risks. Investment in real estate is the main conduit used for money laundering. The main criminal activities that pose a threat are tax evasion, drugs, and corruption.

## General risk factors

The general risk factors that can be deducted from the NRA concern 1) cash, 2) legal entities and 3) real estate.

### 1. Cash

Cash remains a preferred payment method for criminals, and they will need to change, layer or integrate it. And although perhaps less than in the past, the cases of a customer wanting to place substantial amounts of cash in their account can still take place. With a cash intensive economy in Serbia, obligors must guard against large cash placements and be alert for a number of smaller, but related, cash transactions for customers that have cash (e.g., 200 and 500 euro notes) but would not normally be considered to be cash-rich customers.

### 2. Legal entities

Another favourable way for criminals is to hide behind legal entities and to make use of complex corporate structures. In the 2011 and 2012 annual reports of the APML several money laundering typologies are mentioned where legal entities and loans play a large role. Especially when related companies provide fake loans to each other or provide each other with services or products that are fictional or over- or undervalued, money laundering is facilitated.

Also, by using legal entities money launderers can obscure the beneficial owner of the funds. According to the NRA, if the founder of a legal entity is another (foreign) legal entity, fund, or trust then the information on the beneficial owner is not easily obtained from public sources. In these cases, where the obligors rely on information provided from the customer, supervisors should pay extra attention to compliance with the AML/CFT Law.

One of the problems mentioned in the NRA is the existence of phantom companies. Money is transferred through the accounts of several legal entities, suspected to be phantom companies, supposedly as payments for goods and services. The accounts of these legal entities are only used to withdraw the funds and then are quickly shut down after reaching a certain turnover. The funds that are withdrawn from the accounts most often end up in the accounts of individuals, who then immediately withdraw them in cash.

### 3. Real estate

The NRA mentions the real estate trade as a vulnerable activity for ML/TF. A 2007 FATF Typology report on money laundering through real estate<sup>2</sup> identified a number of methods, techniques, mechanisms, and instruments to misuse the real estate sector that are also relevant in the Serbian context:

- Use of complex loans or credit finance
- Use of non-financial professionals
- Use of corporate vehicles
- Manipulation of the appraisal or valuation of a property
- Use of monetary instruments
- Use of mortgage schemes
- Use of investment schemes and financial institutions

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<sup>2</sup> FATF typology report “Money Laundering & Terrorist Financing through the Real Estate Sector”, <http://www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20through%20the%20Real%20Estate%20Sector.pdf>

- Use of properties to conceal money generated by illegal activities

Because real estate trade is considered high risk and several obligors will be involved in real estate transactions (real estate agents, investment/tax advisors, lawyers, banks), it is important for obligors under the AML/CFT Law to treat real estate transactions as high risk and perform enhanced due diligence on parties involved in real estate.

## **Threats**

In the NRA, 1) tax evasion, 2) illicit production and circulation of narcotics and 3) corruption are the criminal offences mentioned that pose the highest threats for money laundering. Also for these criminal activities the risk indicators described above will be frequently used: cash and legal entities to hide the beneficial owner.

### **1. Tax evasion**

The payment of taxes is most often evaded by presenting false turnover through phantom companies, forging documents and mingling income from smuggled goods or illegally manufactured goods into legal trade flows. The high level of tax evasion is also caused by the fact that a significant part of business activities (trade, construction industry) is conducted in cash.

### **2. Corruption**

Criminal offences of embezzlement, bribery as well as the most frequent corruption offence, abuse of office, are also assessed as high-risk criminal offences. Corruption occurs in public enterprises, the health-care sector, the judiciary, and the real sector. Based on a 2011 UNODC report,<sup>3</sup> the public officials who in 2010 received most kickbacks in Serbia are doctors, police officers, nurses and land registry officers.

According to the UN report, cash accounts for more than half (52%) of all bribes in Serbia. When focusing on bribes paid in cash, the report shows that almost 50 per cent of all bribes are for amounts smaller than 5,000 RSD, one fifth of all bribes paid are in the 5,000-10,000 RSD range, almost 30 per cent are higher than 10,000 RSD and 4 per cent of bribes paid in cash are for amounts larger than 100,000 RSD (more than 1,000 euro).

### **3. Narcotics**

The profit generated by selling narcotics is laundered in different ways and most often brought into legal circulation through investments in real estate and the construction industry. By analysing the type and value of seized assets, the NRA concludes that the proceeds of drug crimes are used for purchasing real estate (houses, apartments, commercial facilities and construction land), movable property (passenger and freight vehicles, valuables), as well as for investing in securities.

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<sup>3</sup> UNODC, "Corruption in Serbia: bribery as experienced by the population"  
[http://www.unodc.org/documents/data-and-analysis/statistics/corruption/Serbia\\_corruption\\_report\\_web.pdf](http://www.unodc.org/documents/data-and-analysis/statistics/corruption/Serbia_corruption_report_web.pdf)



## Proposals

A risk-based approach to supervision can be adopted in various ways.<sup>4</sup> Supervisors can take a thematic, project approach to AML/CFT supervision, whereby the supervisor will select a risk area and for that risk area set up a project to examine a group of obligors (by way of offsite or onsite supervision). A risk-based approach to inspections can also be adopted for individual obligors to examine specific issues in depth.

Thematic, risk-based supervision will be useful to address the threats, for instance to determine if obligors scrutinize transactions and customers that could be linked to corruption or tax evasion. Risk-based inspections can also focus on certain risk indicators or compliance issues, for instance if obligors comply with requirements to determine the source of funds of (cash) transactions or the structure and beneficial ownership of legal entities.

Some of the threats and money laundering methods also call for coordinated action between several supervisors. For instance, different obligors will be involved in a real estate transaction: real estate agents, investment/tax advisors, lawyers, banks. Also pension funds and insurance companies can be involved when they invest their funds in real estate. The supervisors can set up a thematic project to determine if in the chain of parties that are generally involved in real estate investments, AML/CFT requirements are complied with. The supervisors can select certain real estate development projects and examine if all involved obligors have done proper customer due diligence and reporting of suspicious transactions.

### 1. Banks

As indicated in the NRA, the analysis of suspicious transactions reported by banks to the APML has found that a large number of transactions relate to transfers between legal entities based on trade in goods and services, credit facilities in the country as well as abroad, loans between legal entities and lending transactions with owners aimed at boosting company liquidity. As for the product risk, transactions related to corporate loans are the riskiest, whereas corporate accounts, corporate credit products and e-banking are the riskiest from the aspect of customer profile. Cash transactions are present to a significant extent in retail deposits where foreign officials and persons with interests in offshore zones or tax havens appear as customers.

Based on that information, it seems that in the banking sector due diligence efforts should be enhanced for cash payments, loans (such as back-to-back loans and loan back constructions<sup>5</sup>) and customers where beneficial owners are not known. The NBS could select themes/projects for their thematic supervision based on these risk areas.

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<sup>4</sup> See MOLI Project Technical Paper 3 on a risk-based approach to AML/CFT inspections.

<sup>5</sup> See also FATF typology reports “Money Laundering & Terrorist Financing through the Real Estate Sector” and “Trade Based Money Laundering” (<http://www.fatf-gafi.org/media/fatf/documents/reports/Trade%20Based%20Money%20Laundering.pdf>), as well as APG Typology Report on Trade Based Money Laundering ([http://www.fatf-gafi.org/media/fatf/documents/reports/Trade\\_Based\\_ML\\_APGReport.pdf](http://www.fatf-gafi.org/media/fatf/documents/reports/Trade_Based_ML_APGReport.pdf))

| Areas of attention       | Supervisory focus   |
|--------------------------|---|
| Loans                    | Examine obligor's policies and procedures with respect to customers that have unusual lending or repayments facilities (back-to-back loans, loan back constructions).   |
| Cash                     | Focus file sampling on customers that deposit large cash amounts. Attention can also be paid to customers with professions that are connected with corruption and bribery.                                      |
| Beneficial owners        | Examine obligor's policies and procedures (and implementation thereof) on beneficial owners, especially where foreign legal entities are involved.  |
| Real estate transactions | Examine if banks treat real estate transactions as higher risk and as such perform enhanced due diligence on customers involved in real estate and examine if banks sufficiently determine the source of funds. |

## 2. Exchange offices

The Foreign Exchange Operations and Transactions Department of the Tax Administration assesses that the exchange offices pose a higher ML risk because of the cash involved and the fact that it concerns instant and occasional transactions. It is therefore remarkable that in 2011, the APML did not receive any suspicious transaction reports from exchange offices. Awareness of money laundering and reporting procedures are topics that the Inspectorate should pay more attention to in order to ensure that the risk perception and number of suspicious report are in line with each other.

As written in the NRA, the money laundering risk of this sector exists of frequent exchange operations of converting local to foreign currencies (proceeds from narcotics) and targeted establishment of exchange offices so that criminals can easily convert money to larger-denomination bills, covering up frequent money conversions and hiding the actual turnover, as well as the identity of participants in exchange operations. Experience shows that owners of exchange offices were very often connected with criminals and that their exchange offices were used to conceal illegal funds, given the high cash turnover in these establishments.

The Foreign Exchange Operations and Transactions Department of the Tax Administration indicates that it already checks whether the owner of the entity, as well as the manager and employees, are convicted for certain crimes.

| Areas of attention  | Supervisory focus  |
|---|--|
| Ownership of exchange offices                                 | When licensing exchange offices, also check the integrity (in addition to criminal records) of the owners and managers by conducting interviews and, if possible, obtaining further intelligence from law enforcement.   |
| Exchange offices that are connected to criminal organisations | Analyse transactions from several exchange offices to determine outliers with respect to turnover, large amounts, large numbers of 500 euro notes, or currencies linked to drugs money. And, in cooperation with APML, establish which offices are connected to criminal organisations, and attach consequences regarding the license. |
| Suspicious transaction reporting                              | Provide guidance and raise awareness; focus inspections on compliance with reporting procedures.   |

### 3. Real estate sector

The Inspectorate for Real Estate Intermediaries indicated that the main ML risks are in the area of real estate development and construction, especially where foreign parties are involved. The Inspectorate also mentioned that lawyers have more details on real estate deals than real estate agents as they arrange the contracts. No suspicious transactions were reported to the APML by real estate agents.

According to the NRA, the real estate construction industry carries an increased money laundering risk because payments for construction materials are made in cash. Large amounts of cash are invested in real estate by developers, followed by the sale of the property and thereby hiding the illegal origin of the money invested in the property.

The analysis of the APML database over the period 2009-2012 found 170 suspicious transactions reported by banks, where real estate trade was stated in the description. A typical case of money laundering is investment of a large amount by an individual appearing as a client and a further sale afterwards, which conceals the illegal origin of the money invested.

| Areas of attention                                      | Supervisory focus   |
|---|---|
| Non-reporting of suspicious transactions on real estate | Cooperation between APML and the Inspectorate to see if in the suspicious transactions on real estate that are reported by banks, could or should also have been reported by real estate agents or other obligors, such as lawyers, that were involved in these transactions in order to determine (non-)compliance with the reporting requirements.        |
| Chain of obligors involved in real estate transactions  | Project between several supervisors to determine if in the chain of obligors that are involved in real estate investments, comply with AML/CFT requirements. The supervisors can for instance select certain real estate development projects and examine if all obligors have done proper customer due diligence and reporting of suspicious transactions. |

### 4. Money transfer services

The NRA provides information on the APML's analysis of money transfers regarding amounts and countries. The money transfer system is recognised as a method of transferring proceeds of crime, but in relatively small amounts. Individual money transfers per person are small (around 300 euro), but it is typical that money is sent to a single beneficiary from numerous originators in different foreign countries. The inflow of money into Serbia is mostly from individuals in some 70 (diaspora) countries. Analysis of transactions showed that 35 persons were connected with criminal groups and used the money transfer services for faster and more secure transfer of criminal money. According to the APML's data, money transfer services are most often abused by persons connected with narcotics trafficking and human smuggling.

Money can only be sent out of Serbia through the Post Office with a daily limit of RSD 200,000 and a monthly limit of RSD 1,000,000 per person.

The NRA mentions several countries where money transfers come from (transfers through offshore destinations such as Cyprus, Delaware and Belize, and a significant number of

transactions with the United States, the Netherlands, Canada, Austria, Slovenia, Montenegro, Bosnia and Herzegovina and Hungary).

| Areas of attention                            | Supervisory focus   |
|---|---|
| Customers connected to criminal organisations | Analyse transactions from several money transfer offices to determine outliers with respect to large amounts or unusual remittance corridors. Offices that have many customers that send or receive larger than average transaction amounts or to/from unusual countries, could be negligent in their due diligence on customers. |

### 5. Games of chance on the internet

The NRA indicates the ML risk of games of chance via the internet as medium-high, although no further information is provided on these risks (besides the fact that there are some unclear provisions in the Law on Games of Chance).

There is in general not much information on online gambling and money laundering. Online gambling could for instance be misused for ML/TF when the online gambling provider is using the organisation itself for money laundering. Also customers can use online gambling for ML. Since the payments will come from bank accounts or credit or prepaid cards, and will be returned to a bank account or credit or prepaid card, some indicators could be if the customer only gambles a little or if funds should be returned to different accounts than where they originated from.

Because of apparent unclarity in the law and limited resources of the Department of Games of Chance of the Tax Administration, it will be challenging for the Department to take a risk-based approach to AML/CFT supervision. Cooperation with other agencies (APML) and the private sector will be necessary to develop further insight into the internet gambling sector and apply a risk-based approach to supervision.

| Areas of attention                    | Supervisory focus  |
|---------------------------------------|--|
| Licensing of internet games of chance | Licensing requirements should include controls on the integrity of the owners and managers (including criminal records).   |
| Transaction analysis                  | Work with APML, banks and other financial institutions to obtain information on internet gambling transactions (e.g., credit and prepaid card payments) in order to analyse those for possible money laundering. |

### 6. Capital market - securities

The 2011 annual report of the APML mentions as money laundering typologies the transfer of securities for the benefit of unrelated persons, especially as a gift and custody accounts where it is difficult to identify the beneficial owners of the securities. During its work on capital market cases, the APML determined that the transfer of securities (gifts, bringing in shares as nominal capital in companies) were misused with an intention of bringing illegal money into legal circulation. High risk for money laundering is also purchasing securities with money transferred from offshore locations and securities trading transactions through custody accounts in countries with banking secrecy or in offshore locations.

According to an FATF Typology report on the securities sector<sup>6</sup>, typical securities-related laundering schemes often involve a series of transactions that do not match the investor's profile and do not appear designed to provide a return on investment.

| Areas of attention                                   | Supervisory focus  |
|--|--|
| Intransparent ownership and unknown sources of funds | Focus inspections on obligor's policies and procedures regarding obtaining adequate information on beneficial owners and on sources of funds to ensure that obligor's have a clear picture on their customers and their finances. The SC should ensure that obligors take their responsibility in complying with the AML/CFT Law and obtain from their customers sufficient information. |
| Corruption   | The fact that securities are transferred for the benefit of unrelated persons, especially as a gift, could indicate that securities are used as payment for bribes. The SC could examine if in the securities sector enough awareness is that securities could be used as payments for bribes.   |

### 7. Life insurance sector

The NRA mentions that cash payments for life insurance premiums are predominant in the Serbian market, but that compliance officers of insurance companies often have no knowledge that there was a cash deposit, because they insufficiently cooperate with the accounting department. Another issue indicated in the NRA is that insurance activities are organized through a poorly organised agent network and that the identity of policy holders is hard to establish in case they are non-residents from tax havens.

| Areas of attention           | Supervisory focus   |
|------------------------------|---|
| Customer due diligence, cash | Focus efforts on ensuring that insurance companies perform all customer due diligence requirements, including obtaining information on source of funds. The NBS should ensure that obligors take their responsibility in complying with the AML/CFT Law and obtain from their customers sufficient information on their identity, also from non-resident customers. |
| Awareness of agents          | The NBS should focus efforts on raising awareness on the AML/CFT Law in the insurance agents' network.  |

### 8. Entities dealing with postal communications

The Postal Services Inspectorate has only limited powers to inspect parcels: it is not authorised to examine the contents of parcels. The indicators to examine for ML/TF are therefore the designated value of a parcel, the description of contents, the frequency of sending parcels with same description of contents, or the large number of postal parcels and postal money orders from one sender to the same recipient or group of recipients. Seeing that cash is common in many typologies from the APMML, it cannot be excluded that criminals will use postal parcels to send money across borders.

Because of the limited powers, it will be challenging for the Postal Services Inspectorate to gain the necessary experience on AML/CFT supervision and focus on those obligors that pose the

<sup>6</sup> <http://www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20in%20the%20Securities%20Sector.pdf>

highest ML/TF risk. Basically, the powers of the Inspectorate need to be extended to include all types of (registered) deliveries in order to be able to adequately supervise this sector for ML/TF risks.

In 2012 annual report of the APML ‘gold’ is mentioned as a new trend in money laundering, specifically that there is an increase in trading, export and smuggling of gold. It could be interesting for the Inspectorate to see if gold is being sent through postal parcels.

| Areas of attention | Supervisory focus  |
|--------------------|--|
| Gold smuggling     | Check if gold (jewellery) is being sent through postal deliveries. |

## 9. Auditors and accountants

In 2012, the APML focused its supervision on accountants and auditors by way of questionnaires on the implementation of AML/CFT legislation. The analysis of the replies showed a lack of clarity and implementation concerning certain CDD measures (identification of foreign officials, PEP’s and applying risk-based measures).<sup>7</sup>

Accountants and auditors can encounter in their day-to-day work phantom companies, companies that over- or under invoice (or fake invoices), deal with real estate (manipulation of valuation, cash payments), or companies that are engaged in loan-back constructions.<sup>8</sup> APML should in their inspections focus if the AML/CFT policies and procedures of accountants and auditors pay extra attention to these issues.

| Areas of attention              | Supervisory focus  |
|---------------------------------|--|
| Accounting practices of clients | APML should in their inspections focus on the policies and procedures of accountants and auditors regarding the practices of their customers on over- or underinvoicing, back-to-back loans or loan-back constructions, and real estate valuation. |

## Approach to thematic risk-based supervision

In order to set up a project plan for thematic, risk-based supervision, the supervisory authorities should try to determine the core problem of the risk area and its causes and effects. Such a problem analysis can be visualized by way of a problem tree (see general example below).

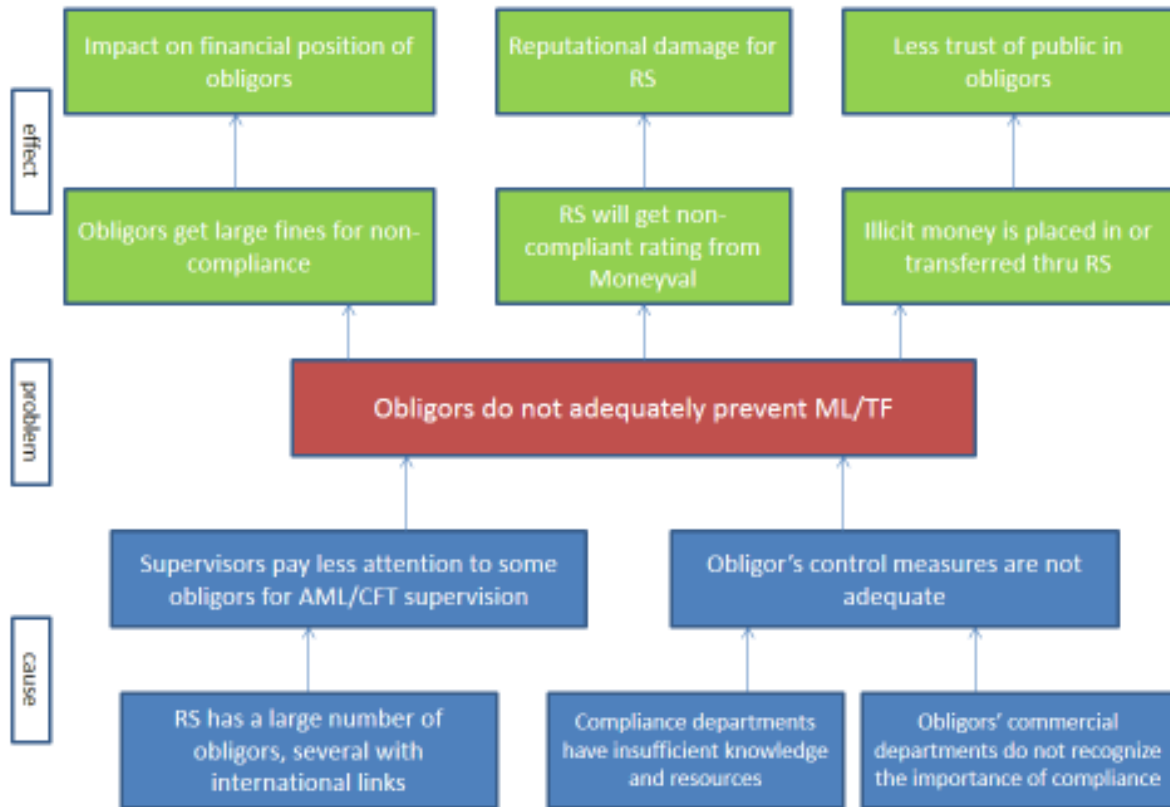
Conducting a problem tree analysis is a means to review the possible causes to a specific problem and the effects of the problem. A problem tree will likely reveal multiple cause and effect relationships leading to the core problem. Such an analysis can be very valuable as it identifies factors that may not be addressed by the originally planned actions and it will allow the authorities to decide on appropriate actions to address the problem. There will be several independent or linked actions and strategies possible to deal with the problem and its causes.

Once the problem and the causes are clear, the supervisor can determine the actions to undertake. For instance, if the main cause is that obligors are not willing to comply, the supervisory actions will have to be different than if the obligors are not able to comply. I.e., obligors that are not willing to comply will need more persuasive supervision, including enforcement actions. Obligors that are not able to comply will need more guidance or training.

<sup>7</sup> <http://www.apml.gov.rs/eng901/novost/Off-site-supervision-report.html>

<sup>8</sup> See also FATF typology reports “Money Laundering & Terrorist Financing through the Real Estate Sector”, “Trade Based Money Laundering”, and APG Typology Report on Trade Based Money Laundering.

For thematic supervision or inspections focused on a specific topic, the supervisors will, as usual, examine the policies and procedures of the obligors, but in the examination pay concentrate on the implementation of policies and procedures and awareness concerning the specific topic. In addition, discussions with compliance and other staff of the obligor as well as file sampling will also center on the issue that is being examined.



(Above problem tree is a general example)