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## Project against Money Laundering and Terrorist Financing in Serbia (MOLI Serbia)

### Activity Report – 18

#### SYNOPSIS OF THE PROJECT ACTIVITY

**Field of activity:**

Economic Crime Unit, Action against Crime Department, Information Society and Action against Crime Directorate, DGI – Human Rights and Rule of Law

**Type of activity:**

Workshop on the Practical Application of the Risk Based Approach (RBA) in On-site and Off-site Supervision

**Programme:**

Joint EU/ CoE Project against Money Laundering and Terrorist Financing in Serbia (MOLI Serbia)

**Country/Region:**

Serbia

**Date and place:**

National Bank of Serbia, Belgrade, 9-10 July 2012

**Budgetary reference:**

5.2.1.

**Council of Europe experts:**

Mr Simon Goddard, Long-Term Consultant

Mr Antonio Marrone, Short-Term Expert

**Council of Europe Secretariat:**

Ms Teodora Lukovic, Local Project Officer

Mr Dario Stukelja, Local Project Assistant

**Participants:**

National Bank of Serbia, Administration for Prevention of Money Laundering (APML), Securities Commission, Market Inspection, Ministry of Culture, Information and Information Society (Postal Services), Banca d'Italia.

**Total number of participants:**

40 (17 male, 23 female)

**Partner institutions/organisations:**

APML, National Bank of Serbia, Securities Commission.

**Origin/reference to other activities:**

5.1.1. – The conclusions of this Workshop will contribute to a scoping paper to review, assess and compile existing standards for supervisors and regulators with an emphasis on risk-based supervision.

**Objectives:**

To introduce supervisors and regulators to good practices in the application of the Risk-Based Approach (RBA) and AML/CFT supervision, as applied by central bank supervisors in EU countries.

**General Assessment:**

The objectives of the workshop were realised with good interaction with the participants and the guest speakers. The workshop objectives and rationale were introduced by Ms Teodora Lukovic on behalf of the Council of Europe, and Ms Silvija Duvancic-Gujanovic from the National Bank of Serbia.

Mr Simon Goddard made a presentation about the basics of money laundering & the financing of terrorism, the new FATF Recommendations, and the need for adopting a national risk assessment. In addition he emphasised the need for each reporting firm to undertake a risk assessment of their business and the importance that supervision of these reporting entities also be based on the risk based approach.

Ms Duvancic-Gujanovic, National Bank of Serbia (NBS) responded with a presentation of the practical efforts employed by the Banking Supervision Department to supervise AML/CFT issues and introduced the NBS AML/CFT questionnaire. This questionnaire is based upon the FATF document on the Risk Based Approach and is updated whenever new requirements are needed. This was followed by active discussion and statements from other supervisor's about their current practice. The supervisor's of Pension Funds, Insurance Market, and Leasing Control use a similar questionnaire and analyse the results accordingly. The insurance market supervisors advised that their questionnaire results again indicated that their particular market was a low risk of money laundering and terrorism financing and the results were being fed into the National Risk Assessment process. The Real Estate Sector and Securities Markets do not currently use a questionnaire but liked the approach and will develop something appropriate for their sectors in due course. The Ministry of Culture, Department of Supervision of the Postal Service also did not currently utilise a questionnaire but would do so in the future. Exchange Offices used to be controlled by the NBS but were now under the Foreign Exchange Directorate and the situation there was not known. The representative from the APML told the workshop that they were currently working with Accountants and Auditors Sectors and although they had some success they did not respond well to a questionnaire and other means were being developed. Each Sector was responsible for issuing guidance to the firms under their supervision.

MOLI Serbia made the observation that there was no composite set of guidelines on AML/CFT and that for their to be a central repository may be a good idea. This was accepted by the workshop and the APML suggested that it be promulgated from their website.

Mr Antonio Marrone, Banca d'Italia, Supervision Department then gave a number of presentations on: the Italian legal system and prudential and AML/CFT controls; off-site supervision and good practices; on-site supervision and good practices; and record keeping good practice.

In particular, Mr Marrone highlighted that the Bank of Italy (BoI) is the Italian public authority responsible for supervision of credit institutions, Bancoposta, non-bank financial intermediaries (i.e., securities firms, asset management companies), financial intermediaries registered under Articles 107 and 106 of the Banking Law (i.e., for granting loans, foreign exchange trading, securitization, issuers of credit and payment cards and guarantees), loan brokers and financial agents. The BoI shares prudential responsibilities on nonbank financial intermediaries with the "Commissione Nazionale per le Società e la Borsa" (Consob). Consob is responsible for ensuring transparency and correct behavior of securities market participants (e.g., investment firms, financial salesman, etc.). The Insurance Supervisory Authority, the ISVAP (Istituto Superiore di Vigilanza sulle Assicurazioni Private e di Interesse collettivo), is the body authorized to supervise insurance and reinsurance undertakings as well as all the other bodies subject to the regulations on private insurance, insurance agents and brokers included. In the area of AML/CFT preventive systems, the supervisory authorities, in agreement among themselves, issue provisions on the manner of fulfilling the obligations concerning adequate customer verification, internal organization, record keeping, procedures and controls intended to prevent the use of intermediaries and other persons performing financial activities. Financial sector supervisory authorities cooperate with each other and with the FIU, including by exchanging information, in order to facilitate the performance of their respective functions. Besides, financial sector supervisory authorities have to inform the FIU of possible cases of failure to make suspicious transaction reports and of every fact that could be connected with money laundering or terrorist financing.

Afterwards, Mr Marrone stressed the relevance of a full implementation of the risk based approach in order to assure an effective protection of the financial system from the risk of money laundering.

As regards the Italian legal system, the principle of risk-based approach has been introduced by the Legislative decree 231/2007, according to which intermediaries have to adapt the CDD requirements to the concrete situation related to the client (economic activity performed, place of residence, etc.) and to the transaction (amount, type of service, frequency, etc.). Supervisory authorities are entrusted with the task of issuing operating instructions to intermediaries as concerns the implementation of the RBA principle. Against this background, legislative decree 231/2007 provides also for cases of simplified and enhanced CDD, pursuant to the cases indicated in directive 2005/60/EC.

As concerns AML/CFT controls on prudentially supervised entities, Mr Marrone explained that in the last years Bank of Italy's on-site control procedures underwent a major revision in order to take into account the new requirements related to controls on AML/CFT risks encountered by supervised intermediaries. According to the new procedures, AML controls may be conducted in the framework of general on-site inspections or through sectoral inspections. Furthermore, since 2008 the Bank of Italy has conducted various cycles of targeted on-site AML inspections on banks' branches in high risk areas in order to assess the banks networks' compliance with the AML rules.

As to AML/CFT controls on non-prudentially supervised entities as by Article 106 Banking Law financial intermediaries, Bureaux de Change, money remitters and loan and financial brokers, the Guardia di Finanza, the Italian finance police, in the last years considerably increased the number and degree of inspections on the above mentioned categories.

At the conclusion of his presentations there was lively discussion about practical issues with the participants and all questions were answered to their satisfaction.

**Results/conclusions:**

As previously stated the objectives of the workshop were met.

The MOLI Serbia project will work with the NBS and the APML in producing a composite set of guidelines for all supervised entities that can be accessed on the APML website and will be available in written format for reference. This will also cover the NFBBP sector who are not supervised by the NBS or other entities present.

The NBS stated that following the success of the workshop they would be happy to host other similar events when required.

**Agenda:**

See attached.

**List of Participants:**

See attached.