

COMMITTEE OF EXPERTS ON
THE EVALUATION OF ANTI-MONEY
LAUNDERING MEASURES AND
THE FINANCING OF TERRORISM
(MONEYVAL)

MONEYVAL(2019)10-ANALYSIS

4th ROUND MUTUAL EVALUATION OF CROATIA

EXIT FOLLOW-UP REPORT SUBMITTED TO MONEYVAL

**WRITTEN ANALYSIS ON PROGRESS IN RESPECT OF THE CORE AND
KEY RECOMMENDATIONS**

9 JULY 2019



This progress report was adopted at MONEYVAL's 58th Plenary meeting (Strasbourg, 15-19 July 2019). For further information on the examination and adoption of this report, please refer to the Meeting Report of the 58th plenary at <http://www.coe.int/moneyval>.

© [2019] Committee of experts on the evaluation of anti-money laundering measures and the financing of terrorism (MONEYVAL).

All rights reserved. Reproduction is authorised, provided the source is acknowledged, save where otherwise stated. For any use for commercial purposes, no part of this publication may be translated, reproduced or transmitted, in any form or by any means, electronic (CD-Rom, Internet, etc...) or mechanical, including photocopying, recording or any information storage or retrieval system without prior permission in writing from the MONEYVAL Secretariat, Directorate General of Human Rights and Rule of Law, Council of Europe (F-67075 Strasbourg or moneyval@coe.int)

CONTENTS

GLOSSARY OF ACRONYMS.....	4
I. INTRODUCTION.....	5
A. Background information	5
II. OVERVIEW OF THE PROGRESS MADE BY CROATIA SINCE THE ADOPTION OF THE MER	7
B. Legislation, regulations and guidance	7
C. Other developments	8
III. APPLICATION OF STEP 2 OF CEPs IN LIGHT OF CROATIA'S PROGRESS SINCE DECEMBER 2018	8
IV. REVIEW OF MEASURES TAKEN IN RELATION TO CORE AND KEY RECOMMENDATIONS	9
Recommendation 1 (Money laundering offence)	9
Recommendation 3 (Confiscation and provisional measures)	11
Recommendation 5 (Customer due diligence)	13
Recommendation 23 (Regulation, supervision and monitoring)	14
Recommendation 35 (Conventions)	16
Special Recommendation I (Implementation of United Nations instruments)	16
Special Recommendation III (Freeze and confiscate terrorist assets)	17
V. REVIEW OF MEASURES TAKEN IN RELATION TO OTHER RECOMMENDATIONS.....	20
Recommendation 12 (DNFBPs – R.5, 6, 8-11)	20
Recommendation 16 (DNFBPs – R.13-15 and 21)	21
VI. OVERALL CONCLUSION	22

GLOSSARY OF ACRONYMS

AML/TF Law	Anti-Money Laundering and Financing of Terrorism law
C	Compliant
CC	Criminal Code
CDD	Customer Due Diligence
CEPs	Compliance Enhancing Procedures
CNB	Croatian National Bank
CPC	Criminal Procedure Code
DNFBP	Designated Non-Financial Businesses and Professions
EDD	Enhanced Due Diligence
EU	European Union
FATF	Financial Action Task Force
FT	Financing of Terrorism
PC	Partially Compliant
PEP	Politically exposed person
LC	Largely Compliant
MER	Mutual Evaluation Report
ML	Money laundering
NC	Non-Compliant
R	Recommendation
SR	Special Recommendation
UNSCR	United Nations Security Council Resolution
WUPSIL	Western Union Payment Services Ireland Limited

I. INTRODUCTION

1. The purpose of this paper is to introduce Croatia's 4th Compliance Report to the Plenary concerning the progress that it has made to remedy the deficiencies identified in the mutual evaluation report on the 4th round assessment visit (MER).
2. Croatia has submitted its 4th Compliance Report to the MONEYVAL Secretariat in June 2019. As per the 4th Round Rules of Procedure¹, countries must have implemented those FATF Recommendations that are considered to be Core² and Key³ at a level essentially equivalent to a "compliant" (C) or "largely compliant" (LC). The Plenary may retain some limited flexibility with regard to Key Recommendations if substantial progress has been made on the overall set of recommendations that were rated "partially compliant" (PC) or "non-compliant" (NC).

A. Background information

3. The onsite visit to Croatia took place from 19 to 24 November 2012. MONEYVAL adopted the 4th round MER of Croatia at its 42nd Plenary meeting in September 2013. As a result of the evaluation, Croatia was rated PC on 16 Recommendations⁴, including two Core, five Key and nine other Recommendations, as indicated in the table below:

Core Recommendations rated PC (no Core Recommendations were rated NC)
Recommendation 1 (Money laundering offence)
Recommendation 5 (Customer due diligence)
Key Recommendations rated PC (no Key Recommendations were rated NC)
Recommendation 3 (Confiscation and provisional measures)
Recommendation 23 (Regulation, supervision and monitoring)
Recommendation 35 (Conventions)
Special Recommendation I (Implementation of United Nations instruments)
Special Recommendation III (Freeze and confiscate terrorist assets)
Other Recommendations rated PC (no other Recommendations were rated NC)
Recommendation 6 (Politically exposed persons)
Recommendation 7 (Corresponding banking)
Recommendation 12 (DNFBPs – R.5, 6, 8-11)
Recommendation 16 (DNFBPs – R.13-15 and 21)
Recommendation 17 (Sanctions)
Recommendation 22 (Foreign branches and subsidiaries)
Recommendation 32 (Statistics)
Recommendation 33 (Legal persons – beneficial owners)
Special Recommendation VIII (Non-profit organisations)

4. Upon adoption of the report, Croatia was placed under the regular follow-up procedure and was requested to provide, no later than two years after the adoption of the report, information

1 MONEYVAL, *Rules of Procedure for the Fourth Round of Mutual Evaluations and for Follow-up as a Result of the Third Evaluation Round*, as revised in September 2017, available at <https://rm.coe.int/rules-of-procedure-for-the-4th-round-of-mutual-evaluations-and-for-fol/1680760775>

2 The core Recommendations, as defined in the FATF procedures, are R.1, R.5, R.10, R.13, SR.II and SR.IV

3 The key Recommendations, as defined in the FATF procedures, are R.3, R.4, R.23, R.26, R.35, R.36, R.40, SR.I, SR.III and SR.V

4 It should be pointed out that the FATF Recommendations were revised in 2012 and that there have been various changes, including their numbering. Therefore, all references to the FATF Recommendations in the present report concern the version of these standards before their revision in 2012.

on the actions it has taken to address the factors/deficiencies underlying any of the 40+9 Recommendations that are rated PC. Croatia was encouraged to seek removal from the follow-up process within three years after the adoption of the 4th round MER or very soon thereafter. As a result, Croatia submitted four follow-up reports discussed at the 48th, 50th, 52nd and 54th Plenary meetings.

5. Due to the limited progress made with respect to Core and Key Recommendations at the 54th Plenary, it was decided to apply Step 1 of Compliance Enhancing Procedures (CEPs). Since then, Croatia has submitted three Compliance Reports which were discussed at the 55th, 56th and 57th Plenaries respectively.
6. Croatia submitted its first Compliance Report at the 55th Plenary in December 2017. At the 56th Plenary in July 2018, the Plenary recognised that Croatia had adopted a new AML/TF Law which largely addressed deficiencies under R.6, R.7, R.17, R.22, R.32, R.33 and SR.VIII. However, the Plenary noted that Croatia had still a large number of outstanding deficiencies which relate to a number of Core, Key and Other Recommendations. This concerned notably R.1, R.3, R.5, R.23, R.35, SR.I, SR.III, R.12 and R.16. The Plenary decided that, should the respective amendments not be adopted by the time of the 57th Plenary, it would consider the adoption of Step 2 of its CEPs.
7. At the 57th Plenary meeting in December 2018, Croatia submitted its third Compliance Report. Mindful of the fact that the deficiencies were already identified in the MER of 2012, that progress made by Croatia continued to fall short of the expectation by the Plenary, and a number of key and core recommendations had still not been fully addressed (R.1, R.3, R.5, R.23, R.35, SR.I and SR.III), the Plenary decided to apply Step 2 of CEPs. However, the Plenary provided a degree of flexibility to suspend Step 2 to the Bureau in case Croatia rectified all outstanding deficiencies by March 2019, which the country only partly achieved (see below).
8. Based on the 4th Compliance Report submitted by Croatia on 17 June 2019, the MONEYVAL Secretariat prepared the present analysis of the progress made in relation to all recommendations rated PC in the MER. By submitting the present compliance report, Croatia has also asked to be removed from the follow-up process of the 4th round of mutual evaluations.
9. The present analysis has been drafted by the Secretariat to assess the progress made for the core and key recommendations which were not yet deemed to be up to a level of LC in the previous follow-up reports due to the pending adoption of the: (i) the “Act on Amendments to the Criminal Code”, i.e. R.1 and R.3; (ii) the “Law on amendments to the AML/TF Law”, i.e. R.5; and the “Law on amendments to the Law on International Restrictive Measures”, i.e. R.35, SR.I, and SR.III.
10. Progress has also been achieved on two non-core/key recommendations rated PC in the 4th round MER of Croatia (R. 12 and 16), which is reflected in this analysis. The other non-core and non-key recommendations rated PC in the 4th round MER of Croatia (R. 6, R.7, R.17, R.22, R.32, R.33 and SR.VIII) are not impacted by the adoption of the new legislation. It is however

recalled that the analysis of the previous compliance report⁵ introduced at the 56th Plenary meeting (2-6 July 2018, Strasbourg) concluded that sufficient progress had been demonstrated to bring the implementation of these Recommendations up to level equivalent to LC. This analysis remains valid.

11. On a general note concerning all follow-up and compliance reports: the procedure is a paper-based “desk review”, and thus by nature less detailed and thorough than a MER. Effectiveness aspects can be taken into account only through consideration of data and information provided by the authorities. It is also important to note that the conclusions in this analysis do not prejudice the results of future assessments, as they are based on information which has not been verified through an on-site process and is not, in all cases, as comprehensive as it would have been during a mutual evaluation.

II. OVERVIEW OF THE PROGRESS MADE BY CROATIA SINCE THE ADOPTION OF THE MER

B. Legislation, regulations and guidance

12. Since the last Compliance Report, the Parliament of Croatia adopted the “Act on Amendments to the Criminal Code” on 14 December 2018 (Official Gazette No. 118/18)⁶, the “Law on amendments to the AML/TF Law” on 5 April 2019 (Official Gazette No. 39/19), the “Law on Amendments to the Law on Insurance” (Official Gazette No. 112/18) and the “Law on amendments to the Law on International Restrictive Measures” on 14 June 2019.
13. In addition to the above, the most significant measures implemented by Croatia since the adoption of the 4th round MER include:
 - The “Law on Amendments to the Criminal Procedure Code” (Official Gazette No.70/17);
 - The “Law on Termination of Law on Proceedings for the Confiscation of Pecuniary Advantage Resulting from Criminal Offences and Misdemeanours” (Official Gazette No. 70/17);
 - The “Law on Amendments to the Law on the Office for the Suppression of Corruption and Organized Crime” (Official Gazette No.70/17);
 - The “Factoring Law” (“Official Gazette” No. 94/14);
 - The “Law on Financial Operations and Accountancy of NPOs” (Official Gazette No. 121/14);
 - The “Mandatory Pension Funds Act” (Official Gazette No. 19/14, 93/15 and 64/18);

⁵ See the report of the 56th Plenary meeting (2-6 July 2018, Strasbourg), MONEYVAL(2018)4-ANALYSIS_HR_2nd_CEPsRep.

⁶ “Act on Amendments to the Criminal Code” entered into force on the eighth day from its publication.

- The “Ordinance on Requirements for the Position of Management or Supervisory Board Members of Insurance Undertakings or Reinsurance Undertakings” (Official Gazette No. 7/16 and 91/16);
- The “Ordinance on the Issuing of Authorisation and on the Acquisition of Shares or Holdings in the Mandatory Pension Company” (Official Gazette, No. 52/14 and 39/17);
- The “Law on Amendments to the Credit Institutions Act” (Official Gazette No. 159/13, 19/15 and 102/15, and 15/18);
- The “Law on Amendments of the Law on Voluntary Pension Funds” (Official Gazette No. 19/14 and 29/18, 115/18);
- The “Law on Amendments of the Law on Pension Insurance Companies” (Official Gazette No. 29/18);
- The “Ordinance on Issuing Authorization to and on Acquisition of a Qualifying Holding in a Voluntary Pension Company” (Official Gazette 52/14 and 51/18);
- The “Capital Market Act” (Official Gazette 65/18);
- The “Payment System Act” (Official Gazette No. 66/18);
- The “Electronic Money Act” (Official Gazette No. 64/18);
- The “Law on Amendments to the Law on Insurance” (Official Gazette No. 54/13, 94/14 and 112/18).

C. Other developments

14. Croatia progressed with establishment of the Beneficial Owners Register initiated based on the Minister of Finance “Decision on forming an Inter-Institutional Working Group on harmonisation of Croatian AML/TF Law with the 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 ML or FT (4th EU AML Directive) and the FATF Recommendations (2012)” from 11 February 2016. On 20 May 2019, the Minister of Finance adopted the “Rulebook on the Register of Beneficial Owners” (Official Gazette No. 53/19). The Register of Beneficial Owners has started operating on 3 June 2019, and should be fully populated by the end of 2019.

III. APPLICATION OF STEP 2 OF CEPS IN LIGHT OF CROATIA’S PROGRESS SINCE DECEMBER 2018

15. In light of the flexibility given to the MONEYVAL Bureau when the Plenary took the decision to apply Step 2 of CEPs in December 2018 (see above, para. 7), the Secretariat considered progress made by the end of February 2019 but found that substantive deficiencies continued to exist. For this reason, a high-level mission was scheduled for 16-17 May 2019 to meet with

high-level representatives (i.e. at ministerial level) of Croatia's Ministries of Finance and Foreign/European Affairs, as well as with representatives of Parliament to discuss the possibilities of accelerated legislative procedures to address the outstanding deficiencies.

16. In the meantime, the "Law on amendments to the AML/TF Law" was adopted on 5 April 2019, eventually leaving SR.I and SR.III as the only outstanding deficiencies (falling into the area of competence of the Ministry of Foreign and European Affairs). Consequently, and in light of the flexibility to apply CEPs under its Rules of Procedure, the MONEYVAL Bureau agreed that there was no need to conduct the high-level mission if a separate meeting with the Minister of Foreign and European Affairs, together with the Croatian delegation to the Council of Europe's Parliamentary Assembly (PACE), could be arranged during the PACE's summer session in Strasbourg. This meeting, which had been scheduled to take place on 26 June 2019, eventually became obsolete after the Croatian Parliament adopted the "Law on amendments to the Law on International Restrictive Measures" on 14 June 2019. In light of this development, the MONEYVAL Bureau decided to cancel this meeting and instructed the Secretariat to analyse the recent legislation in view of the 58th Plenary in July 2019.

IV. REVIEW OF MEASURES TAKEN IN RELATION TO CORE AND KEY RECOMMENDATIONS

Recommendation 1 (Money laundering offence)

17. *Compliance with Recommendation:* With regard to R.1, the majority of deficiencies identified in the 4th round MER are addressed with the adoption of the "Act on Amendments to the Criminal Code" on 14 December 2018 (Official Gazette No. 118/18). Only minor deficiencies remain as analysed below.
18. *Deficiency (1): The purposive element of disguising which should characterise the conversion or transfer is not fully covered.* Croatia introduced respective amendments to Article 265(1) of the Criminal Code (CC) reflecting on the purposive element of disguising the illicit origin of the pecuniary advantage. The deficiency is addressed with the adoption of the "Act on Amendments to the Criminal Code".
19. *Deficiency (2): The purposive element of helping any person involved in the commission of the predicate offence to evade the legal consequence of his or her action is not fully covered.* Croatia introduced respective amendments to Article 265(1) of the CC reflecting on the purposive element of helping any person involved in the commission of the predicate offence to evade the legal consequence of his or her action. The deficiency is addressed with the adoption of the "Act on Amendments to the Criminal Code".
20. *Deficiency (3): Disguise as "actus reus" is not provided.* Croatia introduced respective amendments to Article 265(2) of the CC providing the disguise as "actus reus". The deficiency is addressed with the adoption of the "Act on Amendments to the Criminal Code".
21. *Deficiency (4): The perpetrator of the predicate offence could not be the perpetrator of the ML offences committed through the actions of concealment.* Croatia introduced respective amendments to Article 265(2) of the CC to extend the subject matter of the actions to the

pecuniary advantage “*derived from criminal activity*”, hence ensuring that the perpetrator of the predicate offence could be perpetrator of the ML offences committed through the actions of concealment or disguise. The deficiency is addressed with the adoption of the “Act on Amendments to the Criminal Code”.

22. *Deficiency (5): The person who commits the predicate offence could not be the perpetrator of the ML offence committed through acquisition, possession or use of the proceeds of crime.* Croatia introduced respective amendments to Article 265(3) of the CC, however, the subject matter of the actions of acquisition, possession or use, is the pecuniary advantage “*derived by another from criminal activity*”. Hence, in this case the person who commits the predicate offence cannot be the perpetrator of the ML offence committed through acquisition, possession or use of the proceeds of crime. The deficiency is not yet addressed.
23. *Deficiency (6): Potential difficulties in determining the scope of the concept of “pecuniary advantage” as “corpus delicti” for the ML offence. Proceeds without subsequent increase are not subject matters of ML offence.* In the 4th round MER the evaluators considered that, as long as the Croatian authorities and the practitioners confirmed that in practice, in order to determine the “*pecuniary advantage*” as a constitutive element of the ML offence, it is also necessary to take into consideration the provisions of the “Act on the Proceedings for the Confiscation of Pecuniary Gain Resulting from Criminal Offences and Misdemeanours” (Act on Confiscation), this will generate difficulties for the investigation and prosecution of the ML offence. In this regard, Croatia has indicated that the “Act on Confiscation” was repealed in July 2017 (Official Gazette No 70/17). The deficiency is addressed.
24. With this respect in the 4th round MER it was also recommended to clarify and harmonise the scope of the subject matter of the ML offence and the way in which it may be interpreted in different pieces of legislation which provide a definition for “pecuniary advantage”. Croatia has indicated, that not only the Act on Confiscation was repealed for this purposes, but also the “Act on Amendments to the Criminal Procedure Code”⁷ was adopted to eliminate the overlap in interpreting the term in different pieces of legislation. Respectively, articles of the Law on the Office for the Suppression of Corruption and Organized Crime and the Law on Responsibility of Legal Persons for Criminal Offences containing a reference to the above mentioned Acts ceased to take effect too. The deficiency is addressed.
25. *Deficiency (7): The subject matter of the ML offence, as it is defined by the new CC does not cover all types of property (i.e. legal documents or instruments evidencing title to, or interest in such assets).* With the adoption of the “Act on Amendments to the Criminal Code”⁸ in 2015 the term “property” is introduced in the (new) paragraph 23 of Article 87. It reads as follows: “(23) *Property of any type is considered to be property, regardless if it is tangible or intangible, moveable or immovable i.e. legal documents or instruments which serve as proof to the right to the interest in such property or of an interest in such property.*” The term “property” currently includes such types of the property as “legal documents or instruments evidencing title to, or interest in such assets”, it does however, not cover “corporeal” and “incorporeal” assets, as provided in the FATF Recommendations’ General Glossary. The deficiency is partly addressed.

7 Official Gazette of the Republic of Croatia “Narodne novine” no. 70/17

8 Official Gazette of the Republic of Croatia “Narodne novine” no. 56/15 and 61/15 – correction

26. *Deficiency (8): Facilitating and counselling the commission of the ML offence are not explicitly provided by the CC as ancillary offences and there are no legal reasons to consider that these acts would be investigated, prosecuted and convicted as offences in the absence of a committed ML offence.* Croatia introduced respective amendments to Article 265(4) of the CC criminalising the act of facilitating and counselling the commission of the ML offence. The deficiency is addressed with the adoption of the “Act on Amendments to the Criminal Code”.
27. *Deficiency (9): Shortcomings in the definition of TF as a predicate offence.* According to the 4th round MER, implementation of SR.II by Croatia was considered to be at a level LC. Although there is no progress reported by Croatia on the steps taken to address the identified deficiency, considering their cascading nature, these do not have a significant impact on the level of compliance with the R.1.
28. *Effectiveness of implementation:* Based on the statistics provided by Croatia, it appears that the law enforcement authorities became more active in investigating ML offences over the recent years, as compared with 2013. In 2018 there were 10 investigations initiated (as compared to 4 in 2013), with 17 indictments (as compared to 4 in 2013) and 6 convictions. Over the recent years, Croatia secured convictions for different types of ML, including autonomous, self-laundering and third party ML.

Conclusion:

29. In light of the progress demonstrated by Croatia with regard to implementation of R.1, it can be observed that as a whole the majority of deficiencies identified in the 4th round MER have been addressed. Only minor deficiencies remain (see above). **This brings Croatia to a level equivalent to LC on R.1.**

Recommendation 3 (Confiscation and provisional measures)

30. *Compliance with Recommendation:* With regard to R.3, the majority of deficiencies identified in the 4th round MER are addressed with the adoption of the “Act on Amendments to the Criminal Code” on 14 December 2018 (Official Gazette No. 118/18). Only minor deficiencies remain as analysed below.
31. *Deficiency (1): The definition of the pecuniary advantage, as the subject matter of confiscation, provided by the new CC, does not explicitly cover incorporeal assets and legal documents or instruments evidencing title to, or interest in such assets.* Croatia has introduced a definition of the term “property” in paragraph 23 of Article 87 of the CC. However, as stated in the analysis of Deficiency (8) of Recommendation 1, the term “property” does not cover “corporeal” and “incorporeal” assets, as provided in the FATF Recommendations’ General Glossary. The deficiency is partly addressed.
32. *Deficiency (2): The concept of “pecuniary advantage” adds supplementary features and an additional burden of proof, to determine proceeds of crime, property laundered and proceeds from ML, subject to confiscation regime, in comparison to property subject to confiscation in the meaning of the FATF standards. With this respect in the 4th round MER it was recommended to Croatia to revise the wording “increase or prevention of decrease in the property which came*

about as a result of the commission of a criminal offence” used in Article 87(21) of the Criminal Code to define “pecuniary advantage”. The deficiency is addressed with the adoption of the “Act on Amendments to the Criminal Code” which is amending Article 87.

33. *Deficiency (3): The confiscation of the instrumentalities is conditioned by the supplementary element of the risk that they will be reused in another criminal activity.* According to the 4th round MER, the wording used in Article 79 of the CC is not in line with the FATF essential criterion 3.1, as confiscation of the instrumentalities used in or intended for use in the commission of any ML, FT or other predicate offence is conditioned by the supplementary element of the risk that they will be reused in another criminal activity (paragraph 327-327 of the MER). The deficiency is addressed with the adoption of the “Act on Amendments to the Criminal Code” which is amending Article 79.
34. *Deficiency (4): The confiscation of property of corresponding value of the instrumentalities is not provided.* Croatia has indicated that Article 128 of the “Act on Amendments to the Criminal Procedure Code” addresses the deficiency. However, this provision appears to concern merely the revocation of the pecuniary benefit resulting from the criminal offence. Hence, concerns remain with regard to the confiscation of property of corresponding value of the instrumentalities. The deficiency is not yet addressed.
35. *Deficiency (5): The provisions related to provisional measures are heterogeneous; the references to property subject to confiscation in different pieces of legislation are done using different terminology.* With the adoption of the “Act on Amendments to the Criminal Procedure Code”⁹, the term “object” is replaced by the broader term “proceeds”. With the adoption of the “Law on Termination of Act on Proceedings for the Confiscation of Pecuniary Advantage Resulting from Criminal Offences and Misdemeanours”¹⁰, and o the “Law on Amendment to the Act on the Office for the Suppression of Corruption and Organized Crime” the overlap in interpreting the term in different laws is addressed. The deficiency is addressed.
36. *Deficiency (6): The possibility to take provisional measures ex-parte is explicitly provided only by the Act on Confiscation and consequently it is related only to pecuniary advantage in the meaning of this Act.* Croatia has indicated that the “Act on Proceedings for the Confiscation of Pecuniary Advantage Resulting from Criminal Offences and Misdemeanours” is no longer in force. Application of the provisional measures ex-parte is thus provided in Article 557b of the “Act on Amendments to the Criminal Procedure Code”. The deficiency is addressed.
37. *Recommended action: Art 261 of the CPC should be amended since it is limited to “objects which have to be seized pursuant to the CC” and it is unclear if the scope of “objects” entirely extends over the scope of “funds”.* Croatia has introduced amendments to the CPC with respect to the confiscation process. In addition, Croatia clarified, that Article 261 of the CPC is contained in Chapter XVIII on Evidentiary Actions, and therefore determines the confiscation of the object as an evidentiary act. When confiscation of pecuniary gain and confiscation of objects as instrumentalities occurs, the provisions of Article 79 of the CC will apply, which prescribes the confiscation of objects and means, including funds. The deficiency is largely addressed.

⁹ Official Gazette of the Republic of Croatia “Narodne novine” no. 70/17.

¹⁰ Official Gazette of the Republic of Croatia “Narodne novine” no. 70/17.

38. *Effectiveness of implementation:* Based on the provided statistics, it appears that Croatia has demonstrated effective implementation of preliminary measures. In 2014 the freezing measures were applied to an amount equivalent to EUR 23,168,524. In 2015 the freezing measures were applied to an amount equivalent to EUR 8,526,365 and in 2016 - to EUR 29,988,424. In 2017 the freezing measures were applied to an amount equivalent to EUR 26,439,537. As regards confiscation, on the basis of 1205 verdicts the courts have ordered in 2014 confiscation for the amount equivalent to EUR 26,737,546. In 2015, there were 941 court verdicts with a confiscation order for the amount equivalent to EUR 22,279,695, and in 2016 in total 912 court verdicts with a confiscation order for the amount equivalent to EUR 25,636,002. In 2017 (on the basis of 841 verdicts) the courts have ordered confiscation to an amount equivalent to EUR 39,530,282. In 2018 there were 892 court verdicts with a confiscation order for the amount equivalent to EUR 23,767,323. Overall Croatia demonstrated a stable level of performance with respect to application of the freezing and confiscation measures.

Conclusion:

39. In light of the progress demonstrated by Croatia with regard to implementation of R.3, it can be observed that, as a whole, the majority of deficiencies identified in the 4th round MER have been addressed (see above). **This brings Croatia to a level equivalent to LC on R.3.**

Recommendation 5 (Customer due diligence)

40. *Compliance with Recommendation:* With regard to R.5, the deficiencies as identified in the 4th round MER are fully addressed with the adoption of the “Law on amendments to the AML/TF Law” on 5 April 2019 (Official Gazette No. 108/17 and No. 39/19).

41. *Deficiency (1): There is no requirement to verify whether any person purporting to act on behalf of a person is so authorised.* Croatia introduced the requirement to verify whether any person purporting to act on behalf of a person is so authorised in the AML/TF Law (Article 15). The deficiency is addressed.

42. *Deficiency (2): Financial institutions are not required to obtain from customers information on a foreign legal person’s or foreign legal arrangement’s form, directors and powers to bind.* Croatia introduced the requirement to obtain from customers information on a foreign legal person’s or foreign legal arrangement’s form, directors (for legal persons) and powers to bind in the AMLTF Law (Articles 20(4), 23(6) and 31(1)(3)). In accordance with the current wording, these are equally applicable with regard to domestic legal entities. The deficiency is addressed.

43. *Deficiency (3): The AML/TF Law creates blanket exemptions from the CDD requirements where the risk of money laundering and terrorist financing is low.* Taking into consideration the new approach applied under the current FATF Methodology allowing the countries to apply exemptions while ensuring that appropriate risk mitigation measures are appropriately applied, the deficiency is addressed.

44. *Deficiency (4): The application of simplified CDD measures to customers resident in a third country is not limited to countries which are in compliance with and have effectively implemented FATF Recommendations. The prohibition on the use of the simplified CDD measures does not extend to "specific higher risk scenarios" as required by the FATF Recommendations.* Article 14 of the draft AML/TF Law of Croatia provides for the specific risk factors to be considered by the reporting entities when assessing the risks related to particular business relationships or occasional transactions. The risk factors which may indicate a potentially lower geographical risk are in line with the ones provided in the FATF Recommendations. The deficiency is addressed.
45. *The prohibition on the use of the simplified CDD measures in higher risk scenarios* are set out in Article 43 (5) of the AMLFT Law. Complex and unusual transactions are further elaborated in Article 53 of the draft AML/TF Law. The deficiency is addressed.
46. *Deficiency (5): Derogation under Art. 10 §2 allows the postponement of all CDD measures, not just verification and there is no requirement that CDD measures should be completed as soon as reasonably practicable after the initial contact in case of the reporting entity is allowed to conduct the CCD measures during the establishment of a business relationship with a customer.*
47. According to Article 17, paragraph 2, of the AML/TF Law, reporting entities are permitted to postpone verification of the identity of the customer and the beneficial owner and not the overall CDD measures. The verification should be accomplished as soon as possible after the first contact with the client. The deficiency is addressed.
48. *Deficiency (6): There are no clear provisions in the law which requires adopting risk management procedures concerning the conditions under which business relationship is permitted to utilise prior to verification of the identity of the customer.* Croatia introduced the requirement for the financial institutions to adopt risk management procedures concerning the conditions under which business relationship is permitted for utilization prior to verification of the identity of the customer in the AMLTF Law (Article 17). The deficiency is addressed.

Conclusion:

49. In light of the progress demonstrated by Croatia with regard to implementation of R.5, it can be observed that all deficiencies identified in the 4th round MER have been addressed. **This brings Croatia to a level equivalent to C on R.5.**

Recommendation 23 (Regulation, supervision and monitoring)

50. *Compliance with the Recommendation:* With regard to R.23, the deficiencies as identified in the 4th round MER are mostly addressed with the adoption of amendments to various legislative acts mentioned below in para. 53.
51. *Deficiency (1-3): No requirement to obtain information on ultimate beneficial owners and, respectively, their criminal background for insurance companies and pension companies; (2) The requirement to prevent criminals from holding shares or managerial positions in financial*

institutions does not appear to be fully met; (3) Failure to include criminal associates into the scope of the measures aimed at prevention of criminals from holding a controlling interest or management function in financial institutions.

52. Croatia introduced the marked entry requirements set out in criterion 23.3 (including the elements reflected in the list of deficiencies) for the reporting entities in the following legal acts:

- The “Credit Institutions Act” (Articles 25 and 38);
- The “Payment System Act” (Articles 84 and 85);
- The “Capital Market Act” (Articles 21 and 28), and Investment Firm’s Ordinance (Articles 5 and 16);
- The “Voluntary Pension Funds Act” (Articles 31, 42 and 81);
- The “Pension Insurance Companies Act” (Articles 24, 25, 26, 31 and 38);
- The “Law on Insurance” (Articles 36 and 51), and
- The “Electronic Money Act” (Article 16).

53. In order to ensure the marked entry requirements, Croatia adopted also the “Factoring Law” (Article 34 and 47), the “Ordinance on issuing of approval for acquisition of qualifying holding in a factoring company and in other legal person” (Articles 2 and 7) and the “Ordinance on conditions for membership in management board and supervisory board of a factoring company”. While these provisions contain requirements for the qualifying acquirer and the member of the management to not have a criminal background, there are still no provisions in place to prevent criminal’s associates to act as qualifying acquirer or a manager.

54. With respect to the “Mandatory Pension Funds Act”, in line with the former analysis of the Secretariat some shortcomings remain. There is a requirement to provide data on persons related with acquirer of the shares, which appear to be similar to the data on beneficial ownership. The provisions on checking the criminal background extends only to the acquirer of the shares and the manager, and not to their associates.

55. While Croatia has demonstrated progress in meeting the requirements of c.23.3, some minor deficiencies remain.

56. *Deficiency (4): No licensing or registration for money and value transfer (and other financial) services offered by the Croatian Post.* The Croatian Post that offers money transfer services (using the Western Union logo) was registered at the Croatian National Bank (CNB) as a direct agent of Western Union Payment Services Ireland Limited (WUPSIL). The deficiency is addressed.

57. *Deficiency (5): Lack of legislatively defined licensing requirements and procedures for business entities engaged in factoring activities.* The adoption of the Factoring Act Croatia regulated the

establishment (registration requirements pursuant to Article 20), operation and termination of factoring companies. The deficiency is addressed.

58. *Effectiveness of implementation:* Since the last Compliance Report, Croatia has conducted three on-site supervisions by the CNB over the second half of 2018, and two on-site inspections in 2019. The CNB adopted a supervisory plan for the inspection (on-site and off-site) of credit institutions and credit unions targeting implementation of the new AML/TF Law. The on-site supervision plan was developed based on the risk assessments of individual institutions. The CNB conducted a review of the available supervisory resources, and initiated recruitment of an AML/CFT specialist.

Conclusion:

59. Overall, Croatia has taken a number of steps to rectify the technical deficiencies identified in the 4th round MER. The remaining deficiencies outlined with respect to c.23.3 are of a minor nature. **Consequently, the rating for R.23 has been brought to a level equivalent to LC.**

Recommendation 35 (Conventions)

60. *Compliance with Recommendation:* With regard to R.35, a considerable number of deficiencies identified in the 4th round MER in relation to implementation of the relevant Conventions were related to compliance of Croatia with R.1, R.3 and a SR II.
61. Currently, as provided in the analysis above, Croatia demonstrated a progress with regard to implementation of R.1 and R.3. While the majority of the deficiencies are addressed, some minor gaps remain. This brought Croatia to a level equivalent to LC on R.1 and R.3.
62. In the 4th round MER, SR.II was rated LC. The deficiencies noted were that the scope of the terms “terrorist” and “terrorist organisation”, derived from logical and systemic interpretation of different articles of the CC, are narrower than envisaged by the FATF Standards. There is no progress reported by Croatia on the steps taken to address the identified deficiency.

Conclusion:

63. In light of the progress demonstrated by Croatia with regard to implementation of R. 1 and R.3 (bringing these two recommendations to a level equivalent to LC), and taking into consideration that in the 4th round MER SR.II was initially rated LC, the **R.35 has meanwhile also been brought to a level of LC.**

Special Recommendation I (Implementation of United Nations instruments)

64. *Compliance with Recommendation:* With regard to SR.I, a considerable number of deficiencies identified in the 4th round MER in relation to the implementation of the UN instruments were related to Croatia’s compliance with R.3, SR.II and SR.III.
65. In particular, there were identified ambiguities regarding the scope of provisional measures related to “funds” used or intended to be used in FT offense. These however are mostly

addressed with the adoption of the “Act on Amendments to the Criminal Code” on 14 December 2018 (Official Gazette No. 118/18). Some minor deficiencies that remain are described above (see analysis of R.3). Consequently R.3 is brought to the level of LC.

66. It was also noted that the scope of the terms “terrorist” and “terrorist organisation”, derived from logical and systemic interpretation of different articles of the CC, are narrower than envisaged by the FATF Standards. There is no progress reported by Croatia on the steps taken to address the identified deficiency. Nevertheless, it should be noted that in the 4th round MER, SR.II was rated LC.
67. The analysis on measures adopted by Croatia for the implementation of the UNSCRs relating to the prevention and suppression of FT is provided below (see analysis of SR.III).

Conclusion:

68. In light of the progress demonstrated by Croatia with regard to the implementation of R.3, which is brought to a level equivalent to LC, considering that SR.II was initially rated as LC in the 4th round MER, and that substantial progress is achieved with regard to SR.III (see the analysis below), **SR.I has also been brought in the meantime to a level of LC.**

Special Recommendation III (Freeze and confiscate terrorist assets)

69. *Compliance with Recommendation:* Croatia informed that the “Law on amendments to the Law on International Restrictive Measures” was adopted by the Parliament on 14 June 2019 in order to enhance compliance with SR.III.
70. *Deficiency: (1) The scope of “assets”, subject matter of the freezing mechanism in Croatia is narrower than the scope of “funds or other assets” as it is provided by the FATF standards. Parallel references to the subject matter of the freezing mechanism in different pieces of legislation should be avoided.* With the adoption of the “Law on amendments to the Law on International Restrictive Measures”, Article 3 is amended by introducing a new definition (“assets and other funds”) which is in line with the FATF Standards. At the EU level, the scope of the funds and other assets is covered pursuant to Regulations 881/2002¹¹, and 753/2011. Croatia repealed the Government Decision No. 2516/2010, thus addressing concerns related to the parallel references to the subject matter of the freezing mechanism in different pieces of legislation. The deficiency is addressed.
71. *Deficiency: (2) The freezing actions referred to under Art. 11 of the IRM Law extend only to assets owned, held or belonging in any way to the subject to whom restricted measures are being applied to, and to assets controlled or supervised by that subject. Assets controlled jointly or indirectly are not explicitly covered.* With the adoption of the “Law on amendments to the Law on International Restrictive Measures”, Article 11 is amended which has broadened the scope of the property and assets subject to freezing. The freezing actions now refer to “freezing all the assets and other property owned, held or belonging in any other way to the entity against whom the measures are applied, or which are controlled or supervised by that entity, and the

¹¹ Amended by EU Regulation 363/2016.

assets and other property under the joint or indirect control of the entity". At the EU level Regulations 881/2002¹², 753/2011 and 2580/2001 (UNSCR 1373) fulfil the sub-criterion. Listed EU "internals" are not subject to freezing measures but only to increased police and judicial cooperation among member states (CP 2001/931/CFSP footnote 1 of Annex 1). Art. 75 of the Treaty of Lisbon (2007) allows for the freezing of assets of designated EU nationals, but the EU has not yet implemented this provision. The deficiency is largely addressed.

72. *Deficiency: (3) The situation envisaged by the UNSCRs in terms of control or possession of funds by persons acting on behalf of the subject or acting at their direction does not appear to be explicitly covered.* With the adoption of the "Law on amendments to the Law on International Restrictive Measures", Article 11 is amended and refers to "freezing assets ... which are supervised by [designated persons]" and "making the assets unavailable, directly or indirectly, to the entity against which the measures are applied, and persons acting on behalf or for the account of the entity". As was indicated above at the EU level Regulations 881/2002¹³, 753/2011 and 2580/2001 (UNSCR 1373) fulfil the sub-criterion (except for the EU "internals"). The deficiency is largely addressed.
73. *Deficiency: (4) Funds derived or generated from assets owned or controlled directly by the designated persons, terrorist, those who finance terrorism or terrorist organisations, are only partially covered (art. 3 para 2 (c), (e), (f) of the IRM Act). (10) Unclear provisions for funds or other assets derived or generated from funds or other assets owned or controlled directly or indirectly, wholly or jointly, by designated persons, terrorists, those who finance terrorism or terrorist organisations (mix of III.1 and III.4(b)).* With the adoption of the "Law on amendments to the Law on International Restrictive Measures" the requirement to freeze the funds and assets derived or generated from the ones owned or controlled directly or indirectly by designated persons or entities are not covered. As was indicated above at the EU level Regulations 881/2002¹⁴, 753/2011 and 2580/2001 (UNSCR 1373) fulfil the sub-criterion (except for the EU "internals"). The deficiency is partly addressed.
74. *Deficiency (5): The obligation to not make funds available, directly or indirectly, to designated persons is limited to the scope of funds as they are defined by the IRM Act.* With the adoption of the "Law on amendments to the Law on International Restrictive Measures" the scope of the funds and other assets is broadened and the definition is in line with the FATF Standards (see above). However, the relevant provision (Article 11.1.b) misses some elements, such as "wholly or jointly, for the benefit of designated persons, entities owned or controlled, directly or indirectly by designated persons". As was indicated above, at the EU level Regulations 881/2002¹⁵, 753/2011 and 2580/2001 (UNSCR 1373) fulfil the sub-criterion (except for the EU "internals"). The deficiency is partly addressed.
75. *Deficiency (6): The condition which is reaffirmed in c.III.1 (freezing to take place without prior notification) is approached only at the level of guidelines and freezing assets with prior notice to the designated persons involved is not punishable. Safeguards are not strong enough to maintain*

12 Amended by EU Regulation 363/2016.

13 Amended by EU Regulation 363/2016.

14 Amended by EU Regulation 363/2016.

15 Amended by EU Regulation 363/2016.

the surprise effect intended by the UN Resolution. With the adoption of the “Law on amendments to the Law on International Restrictive Measures”, Article 11 expressly provides for the obligation to freeze funds and other assets “without prior announcement/notification”.

76. Article 2 of the “Law on International Restrictive Measures” stipulates that the UN restrictive measures are binding for the Republic of Croatia. Hence Croatia is not affected by the delay that arises between the date of a designation under the UNSCRs 1267/1989 and 1988 by the UN Committees and the date of its transposition into EU law. The deficiency identified in the 4th round MER is addressed.
77. *Deficiency (7): There is no effective mechanism in place to designate persons in the context of UNSCR 1373(2001).* Croatia indicated that, since the accession to the EU in 2013, it implements UNSCR 1373 via the EU framework under Council Common Position 2001/931/CFSP and EC Regulation 2580/2001. The Council of the EU is the competent authority for making designations, per EU Council Regulation 2580/2001 and CP 931/2001/CFSP. At the national level, Croatia has not yet established a formal mechanism for identifying targets pursuant to UNSCR 1373. Article 4 of the Law on International Restrictive Measures was amended to the effect that the government may issue decisions on the introduction of international restrictive measures in compliance with the resolutions of the UN Security Council. In this respect, Croatia clarified that the domestic designation mechanism will be implemented by the Standing Coordination Group led by the Ministry of Foreign and European Affairs based on provisions of Article 5. However, until this has been implemented, the deficiency is partly addressed.
78. *Deficiency (8): There is no legal procedure to examine and give effect to, if appropriate, the actions initiated under the freezing mechanism of other jurisdictions.* Croatia indicated that since the accession to the EU in 2013, it implements the provisions of SR.III (Criterion III.3) via the EU framework under EU Common Position 2001/931/CFSP. When requests from other jurisdictions within the EU are received, the CP 931 Working Party examines whether the designation criteria of CP 2001/931/CFSP, which are compliant with UNSCR 1373. At the national level, Article 5 (3) of the Law on International Restrictive Measures was amended to the effect that the “Standing Group for the Introduction and Monitoring of the Implementation of International restrictive Measures” may propose to the government to introduce restrictive measures in relation to specific natural and legal persons and other entities, at the proposal, *inter alia*, of a EU member state or of a third state. The deficiency is addressed.
79. *Deficiency (9): There is no procedure for the consolidated list to be sent to the reporting entities.* All EU regulations are published in the Official Journal of the EU, and the EU maintains a consolidated list of designated individuals. The EU also provides for the possibility to subscribe to an RSS feed in order to be informed automatically of all changes. At the national level, according to Articles 5 to 7 of the “Law on International Restrictive Measures”, the government shall establish a Database of implemented restrictive measures, to which the natural and legal persons and other entities shall be entitled to access. However, the law does not provide for any “active” communication mechanism to send a consolidated list of designated persons to the reporting entities. In this respect, Croatia clarified that the communications mechanisms would be set up on the basis of the amended legislation by the

Standing Coordination Group led by the Ministry of Foreign and European Affairs. However, until this has been implemented, the deficiency is only partly addressed.

80. *Recommended action: Conduct an appropriate training and awareness raising for all reporting entities needs to be. Establish an effective system of communication with the DNFBP sector in respect of the obligation under SR.III.* Croatia has informed the in December 2017, in the margins of the Annual Conference on AML/CFT matters a special part was dedicated to international restrictive measures and freezing of terrorist assets. The deficiency is partly addressed.
81. *Recommended action: Adopt a detailed procedure (guidance) with regard to all steps needed to be taken after the freezing in order to ensure the un-freezing and clarifying their obligations according to the freezing mechanism.* In this respect Croatia clarified that these procedures would be set up on the basis of the amended legislation by the Standing Coordination Group led by the Ministry of Foreign and European Affairs. However, until this has been implemented, the deficiency is not yet addressed.

Conclusion:

82. Croatia adopted the “Law on amendments to the Law on International Restrictive Measures” on 14 June 2019 in order to enhance compliance with SR.III. In addition, following accession to the EU on 1 July 2013, Croatia applies the freezing mechanisms through EU legislation. While through a combination of measures the majority of deficiencies identified under the 4th round MER are addressed to a large extent, concerns still remain with some gaps in the national legislation as concerns c.III.1 and c.III.4. Croatia is envisaging, but has not yet established a formal mechanism for identifying targets pursuant to UNSCR 1373; detailed procedures on freezing and un-freezing; and procedures for “active” communication of the consolidated lists. No further information was provided on additional guidance to the reporting entities, as recommended under the 4th round MER. **Hence, the rating for SR.III will only be brought to a level of “largely compliant” by the time the measures (which are currently underway) are fully implemented.**

V. REVIEW OF MEASURES TAKEN IN RELATION TO OTHER RECOMMENDATIONS

Recommendation 12 (DNFBPs – R.5, 6, 8-11)

83. *Compliance with Recommendation:* With regard to R.12, the remaining deficiencies as identified in the 4th round MER (as were described in detail in the Secretariat’s analysis presented to the 56th and 57th Plenary meetings) are to some extent addressed with the adoption of the “Law on amendments to the AML/TF Law” on 5 April 2019 (Official Gazette No. 39/19).
84. *Deficiency: (1) Deficiencies identified in Rs. 5, 6, 10 and 11 equally apply to the DNFBPs.* Currently, as provided in the analysis above, Croatia demonstrated a progress with regard to implementation of the R.5, and deficiencies as identified in the 4th round MER are fully addressed. R.5 is re-rated to C. According to a former analysis presented to the 56th Plenary

meeting, Croatia could also demonstrate that the majority of technical deficiencies identified in the 4th Round MER with respect to R.6 are addressed¹⁶. Minor concerns remain with respect to the definition of the politically exposed person (PEP), that is not fully in line with the FATF Recommendations. R.6 was re-rated to LC. In the 4th Round MER R-s. 10 and 11 were rated LC, and Croatia provided no further update. Hence, the deficiency is addressed to a large extent.

85. With regard to other two deficiencies¹⁷ identified in the 4th MER with respect to R.12, Croatia provided no new information. Hence, minor doubts remain with respect to explicitly addressing the deficiencies of regulation of matters on non-face to face business relationships or transactions, and providing an appropriate guidance (see the analysis of the Secretariat introduced at the 56th Plenary).

Conclusion:

86. In light of the progress demonstrated by Croatia with regard to the implementation of R.5 to the level equivalent to C, and considering that overall the majority of technical deficiencies identified in the 4th Round MER are addressed, **the rating for R.12 has also been brought in the meantime to a level of LC.**

Recommendation 16 (DNFBPs – R.13-15 and 21)

87. *Compliance with Recommendation:* With regard to R.16, Croatia provided new information on steps taken to address the remaining two deficiencies.
88. *Deficiency: (1) Effectiveness of implementation of the Recommendations 13 and 14.* Statistics provided by Croatia on the STR reporting by the DNFBPs suggests that over the last year there have been a positive reporting behavior demonstrated among the accountants and the auditors. The first report was received from the real estate sector. Notaries remain to be the sector that demonstrates a constant reporting behavior. While there was outreach provided to the DNFBP sector, as demonstrated further, no specific information is provided as if these specifically included raising awareness and understanding of the legal protection offered by the AML/TF Law for breach of any restriction on disclosure of information.
89. *Deficiency: (2) The lack of guidance and training for DNFBPs relating to doing business with countries not sufficiently applying the FATF Recommendations could have an impact on the effectiveness of implementation.* Croatia adopted and published Guidelines for organisers of games of chance on the procedure of ML/TF risk assessment and on the manner of conducting CDD and EDD measures (July 2018). A number of outreach activities were organised in 2016-2017 on prevention of ML/FT for the representatives of accountants, auditors, tax advisors,

¹⁶ See the report of the 56th Plenary meeting (2-6 July 2018, Strasbourg), MONEYVAL(2018)4-ANALYSIS_HR_2nd_CEPsRep.

¹⁷ (2) There is no obligation in the AML/TF Law requiring DNFBPs to have in place or take measures to prevent the misuse of technological developments in AML/CFT schemes and to address the specific risks associated with non-face to face business relationships or transactions;

(3) Lack of adequate guidance on identifying complex, unusual large transactions, or unusual patterns of transactions that have no apparent or visible economic or lawful purpose could have an impact on the effectiveness of application.

real estate intermediaries, payment institutions providing cross-border payment services, traders in precious metals and stones.

Conclusion:

90. In light of the progress demonstrated by Croatia with regard to conducted awareness-raising activities that resulted in a positive reporting behavior demonstrated among accountants, auditors and real estate sector representatives, **the rating for R.16 has been brought in the meantime to a level of LC.**

VI. OVERALL CONCLUSION

91. Since December 2018, Croatia has made substantial progress in addressing the remaining deficiencies identified in the 2014 MER. This concerns, in particular, the following core and key recommendations: R.1, 3, 5, 23, 35 and SR.I. These recommendations have in the meantime been brought to a level of at least “largely compliant”.
92. With regard to SR.III, Croatia has made considerable progress through the adoption of the “Law on amendments to the Law on International Restrictive Measures” in June 2019. Once the non-legislative measures which Croatia is currently in the course of implementing are completed, the level of compliance with SR.III would likewise be brought to at least “largely compliant”.
93. **In light of the progress described above, it is suggested that the Plenary lifts the CEPs in respect of Croatia.**
94. By submitting the present compliance report, Croatia has also asked to be removed from the follow-up process of the 4th round of mutual evaluations. According to Rule 13, paragraph 4 of the 4th round rules of procedures, this requires that the State or territory has an effective AML/CFT system in force, under which it has implemented all core and key recommendations at the level of or at a level essentially equivalent to a “compliant” or “largely compliant”.
95. In the case of Croatia, the above conditions are fulfilled with the exception of SR.III, which will have been brought to a level of at least “largely compliant” by the time the ongoing measures are fully implemented.
96. However, with SR.III being a key recommendation, it is recalled that the Plenary retains some limited flexibility with regard to those recommendations that are not core recommendations, if substantial progress has also been made on the overall set of recommendations that have been rated “partially compliant” or “non-compliant” (see Rule 13, paragraph 4).
97. The present analysis confirms that Croatia has made substantial progress since the 2014 MER on the two remaining recommendations rated “partially compliant” therein which were not key or core recommendations and which had not yet been brought to a level of compliance of at least “largely compliance”. These were notably R.12 and R.16. In a previous analysis¹⁸ for

¹⁸ See the report of the 56th Plenary meeting (2-6 July 2018, Strasbourg), MONEYVAL(2018)4-ANALYSIS_HR_2nd_CEPsRep.

Croatia's follow-up and compliance reports, the Plenary had already recognised progress made on the other non-core/key recommendations originally rated as "partly compliant" in the 2014 MER. These were notably: R.6, 7, 17, 22, 32, 33 and SR.VII. It was stated at the time that such progress would bring these recommendations to a level equivalent to "largely compliant". **Therefore, it is suggested that the Plenary uses the limited flexibility provided by Rule 13, paragraph 4 to remove Croatia from the 4th round follow-up process.**

98. Concerning the few outstanding deficiencies which were outlined in the present analysis, it is suggested that the Plenary encourages Croatia to remedy these as soon as possible, and in any event ahead of the forthcoming 5th round mutual evaluation onsite visit which is scheduled for Croatia in the second half of 2020.

The MONEYVAL Secretariat

July 2019