

Croatia

Fifth Round Mutual Evaluation Report Executive Summary

1. This report provides a summary of the anti-money laundering and combating financing of terrorism (AML/CFT) measures in place in Croatia as at the date of the on-site visit (10–21 May 2021). It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Croatia's AML/CFT system and provides recommendations on how the system could be strengthened.

Key Findings

- a) The understanding of money laundering (ML) risks is uneven across the Croatian authorities. The supervisors' understanding ranges from comprehensive to inadequate in the order from Croatian National Bank (CNB), Financial Inspectorate, Croatian Financial Services Supervisory Agency (CFSSA) to Tax Administration (TA). Amongst the law enforcement authorities (LEAs), the State Attorney's Office (SAO) and the Security and Intelligence Agency (SIA) level of ML risk understanding was mostly identical, and reflective of the National Risk Assessment (NRA) findings. The Anti-Money Laundering Office's (AMLO) risk understanding was broader than the NRA suggests. The Terrorist financing (TF) risks understanding did not prove to be sufficient across all authorities, with the CNB and the Financial Inspectorate demonstrating a comparably better understanding at a sectoral level. Overall, understanding of ML/TF risks was affected by several shortcomings in identification and assessment of risks. Three strategic documents, while not informed by the ML/TF risks, are developed aimed at setting policy objectives, in the areas of suppression of corruption and prevention of TF. Two Action Plans on the basis of NRAs are described by Croatia as representing a national AML/CFT policy, which raises doubts on the basis of the substance of these. At an operational level, competent authorities demonstrated good co-operation and co-ordination on ML/TF issues, but support at the policy-making level is not demonstrated enough regarding strategic coordination of combating ML/TF.
- b) The competent authorities access a wide variety of sources of financial intelligence and other relevant information when conducting investigations. LEAs leverage financial intelligence mostly to develop evidence and trace criminal proceeds related

to associated predicate offences. They rarely use these in the context of ML investigations and never for TF investigations (but were systematically used in TF pre-investigations led by LEAs). Suspicious transaction reports (STRs) received especially from banks and Money Value Transfer Services (MVTs) contain relevant and accurate information, which assists the AMLO and LEAs when performing their duties. LEAs acknowledge the quality of the AMLO disseminations. Most investigations are triggered by the AMLO disseminations, but the ratio between disseminated cases and launched investigations remains low. The AMLO disseminates the results of its analysis to LEAs, but in some instances (rarely with respect to ML and systematically for TF) these are addressed to authorities with no law enforcement powers. The AMLO conducts strategic analysis, however, it does not sufficiently reflect the higher risk areas identified in the NRA. The AMLO suffers from a significant shortage of human resources, which affects its performance.

- c) The legislation provides extensive powers to LEA to identify and investigate ML. However, the investigation mainly focuses on the predicate offence due to the limited understanding of ML offence by judges and to some extent prosecutors. Overall achieved results in ML convictions are not consistent with the risk profile of the country. Criminal sanctions applied so far for ML offences are not sufficiently effective or dissuasive.
- d) Croatian authorities have legal powers to detect, restrain and confiscate instrumentalities, proceeds of crime and property of equivalent value. While there is no high policy document regarding confiscation, the actions of the competent authorities in recent years demonstrate that confiscation is considered a policy objective to some extent. Croatia has confiscated significant proceeds of domestic predicate offences, but ML related confiscation has not achieved any tangible results. The financial investigations are carried out as a part of the investigation of predicate offences, but authorities do not keep statistics on those and cannot provide results of the specific outcomes. Undue delays in criminal proceedings in complex cases cause the release of the seized assets and create the risk of dissipation of assets. Cross-border transportation of cash very rarely triggered ML/TF inquiries by LEAs. Confiscation results are not always in line with the risk profile of the country described in both 2016 and 2020 NRAs.
- e) The authorities do not have a proper understanding of TF phenomenon and how different legal and illegal activities can be exploited for TF purposes. While there were a number of inquiries conducted by LEAs, these did not lead to any formal criminal or parallel financial investigation and thus no prosecution and conviction for TF offence. While in certain instances this is due to the lack of sufficient criminal grounds, in others, it is due to the lack of consideration of TF elements in specific cases.
- f) Croatia implements the UN targeted financial sanctions (TFS) on TF and proliferation financing (PF) relying on the European Union (EU) legal framework, which does not ensure implementation of those “without delay”. There is no national legal framework set to overcome this delay. No national framework is also set for

identifying and designating persons and entities pursuant to UNSCRs 1267/1989 and 1988 and 1373. No procedures or mechanisms for de-listing or unfreezing assets are available publicly. The Standing Group did not demonstrate an active role in implementation of asset freezing requirements in the country. Banks and other REs that are members of larger financial groups demonstrated sufficient understanding of TF and PF-related UN TFS requirements. Tools for implementation of the TFS used by the most material REs ensure timely update and effective detection of matches. Smaller REs have weaknesses in understanding some requirements related to the frequency and the scope of checks. While no real match was detected and no assets frozen, several REs confirmed having had false-positive matches with UN TFS listed persons, thus demonstrating the ability to detect matches. Supervision of compliance with PF-related TFS is conducted within the scope of AML/CFT inspections, but there is a need for more frequent supervisory efforts focused on the weaker performing sectors, and adequate resourcing.

- g) Croatia made efforts to conduct assessment of risks in the non-profit organisations (NPO) sector. The NPO sector was considered within the scope of the two NRAs conducted in 2016 (subject to ML vulnerabilities in the sector), 2020 (as a variable for assessing the Country's TF vulnerabilities), and a thematic analysis by the Financial Inspectorate. None of these exercises led to identification of the subset of NPOs that fall under the FATF definition and are likely to be at risk of TF abuse by virtue of their characteristics. This has affected the implementation of the targeted measures towards the sector.
- h) The level of understanding of ML risks, while in conformity with the NRA findings, varies across sectors, being stronger among banks, MVTs, and to a lesser extent among authorised exchanges, Virtual Asset Services Providers (VASPs), lawyers and notaries. With respect to TF risks, banks' and MVTs's understanding is relatively higher than across all other sectors, where understanding is deficient. Generally, where REs have a limited understanding of ML/TF risks, this directly impacts the application of risk-mitigating measures. Banks and MVTs demonstrated advanced practices in applying a risk-based approach, consistent with their risk understanding and assessment of their own businesses' risks. Financial Institutions (FIs) and designated non-financial businesses and professions (DNFBPs) exhibited different degrees in the application of customer due diligence (CDD) measures, including the depth and sophistication of ongoing monitoring of business relationships, relatively stronger being banks, MVTs, authorised exchange, and online casino providers. Implementation of CDD requirements to natural persons is adequate, but application of measures to identify beneficial owner (BO) of a corporate customer raises concerns within all sectors, especially when dealing with complex structures. FIs, especially banks, MVTs, E-money and payment institutions demonstrated a higher level of effectiveness in applying enhanced due diligence (EDD) measures than the DNFBPs. The STRs align with the risks identified in the NRA to a large extent. The volume of STRs in the banking and MVTs (including the Croatia Post) sectors is largely consistent with the expectations, taking into consideration the materiality and risks present in the sectors than that of the others. STR reporting

in non-bank FIs, including exchange offices and DNFBPs, including casinos, notaries, and real estate is low and may indicate a lack of understanding of reporting requirements or inadequate controls to identify suspicious activity.

- i) When licensing, the CNB applies robust measures including verification of received information, while the CFSSA does so to a lesser extent. The TA and other licensing bodies apply administrative checks without verification of a criminal background information. The CNB and Financial Inspectorate have a reasonable supervisory framework with their AML/CFT supervisory efforts largely aligned to understanding the ML/TF risks. The shortcomings of risk understanding by the CFSSA and the TA also impact the effectiveness of the supervision undertaken. The effectiveness and dissuasiveness of sanctions vary across the supervisors, being stronger at the CNB and Financial Inspectorate whilst weaker at the CFSSA and the TA.
- j) Information on the creation and types of legal persons and arrangements is publicly accessible. While no assessment was conducted, the authorities, independent of each other, demonstrated some understanding of ML but not TF vulnerabilities of legal persons and arrangements. While observing that limited liability companies and Simple limited liability companies are the types of legal persons most frequently abused, Croatian authorities are reluctant to flag certain types of legal persons as the most vulnerable vehicle for ML, rather, they are inclined to focus on the schemes and criminal conduct itself. There is a range of measures to mitigate the misuse of legal persons and arrangements, such as the requirement to register in various registers, including the BO Register, participation of a notary public in the registration process, but all of these have some weaknesses. Issues with verification of information and ongoing monitoring undermine the accuracy of the information and how up to date it is. Adequacy of information casts doubts in some instances. Access to information and documents by competent authorities is timely. Sanctions are not applied in a systematic manner.
- k) Croatia provides constructive assistance in the field of MLA and extradition in relation to ML/TF, and predicate offences (except for the fiscal offences when dealing with non-EU Member States). There are no major issues in international co-operation, but occasional delays are observed when requests are sent through the MoJA. There is no mechanism for prioritising incoming requests. Croatia is seeking foreign co-operation only to a limited extent, which is not in line with its risk profile. The country has not taken a systematic approach to identify and eliminate the underlying systemic issues with refusing extradition requests by foreign counterparts. Informal co-operation represents a strong side of the system.

Risks and General Situation

2. The main ML risks detected by Croatia are related to tax crime, corruption and drug trafficking. Among these, tax crime and drug trafficking are not only posing domestic risks but also foreign. Setting up legal persons by non-residents and seeking to transfer funds to or through Croatia's financial system is a well-known typology. Croatia takes measures towards preventing this risk. Croatia is a transit point along the so called "Balkan route" through which narcotics are smuggled to Western

Europe, by organised criminal groups. Corruption is mostly detected as a domestic crime. A number of criminal proceedings against high-ranking public officials, including the former prime minister were carried out. Modalities of such illegal behaviour include budget payments for unperformed or unreasonably high marketing and similar services. Croatia considered the terrorism threat to be low in the country, with very few instances of Croatian nationals leaving for conflict zones.

Overall Level of Compliance and Effectiveness

3. Croatia introduced major amendments into its Anti-Money Laundering and Terrorism Financing Law (AMLTFL) in 2018 and subsequently in 2019, considerably enhancing the requirements for application of preventative measures. It also has conducted two NRAs in 2016 and 2020 respectively. The findings of the first NRA led to application of enhanced measures for the identification of a customer. Croatia also took important steps towards improving transparency of legal persons and arrangements by introducing a BO Register. First steps were also taken towards introducing the VASPs into the AML/CFT framework, setting a requirement for VASPs to file a notification to CFSSA about their activities.

4. In terms of technical compliance, the legal framework has been significantly amended, but a number of technical shortcomings are noted some of which present challenges for effectiveness. There are gaps with implementation of UN TFS on TF and PF, measures with respect to the NPO sector, certain preventive measures related to the implementation of CDD. Some of the challenges related to inadequate resourcing of competent authorities had a systematic impact. This speaks to a need for more support at a policy level. Croatia demonstrated strengths in implementation measures related to financial institutions secrecy laws, analysis function of the FIU, deployment of competent authorities with law enforcement responsibilities, and providing guidance and feedback across the private sectors.

Assessment of risk, coordination, and policy setting (Chapter 2; 10.1, R.1, 2, 33 & 34)

5. Croatia has made efforts to develop its understanding of ML/TF risks through two NRAs conducted in 2016 and 2020. The second NRA does not demonstrate an increased level of understanding from the first one, and it did not lead to a more sophisticated understanding and response to ML/TF risks. The understanding of ML risks is uneven across the Croatian authorities. The supervisors' understanding ranges from comprehensive to inadequate in the order from CNB, Financial Inspectorate, CFSSA to TA. Amongst the LEAs, the SAO and the SIA level of ML risk understanding was mostly identical and reflective of the NRA findings. The AMLO's risk understanding was broader than the NRA suggests regarding observed trends and typologies. The TF risks understanding did not prove to be sufficient across all authorities, with the CNB and the Financial Inspectorate demonstrating a comparably better understanding at a sectoral level.

6. Overall, understanding of ML/TF risks was affected by several shortcomings in identification and assessment of risks: conclusions are based on the empirical knowledge due to the systemic lack of quantitative data; data on undetected criminality is not explored; STRs and other financial intelligence and a range of foreign co-operation requests are not systematically explored. The authorities could mainly describe the top three ML threats in terms of the predicate offences but could not explain them in terms of the ML risks. The impact of certain vulnerabilities on the risk environment of the country was not demonstrated to be understood.

7. Three strategic documents, while not informed by the ML/TF risks, are developed aimed at setting policy objectives, in the areas of suppression of corruption and prevention of TF. Two Action Plans on the basis of NRAs are described by Croatia as representing a national AML/CFT policy, which raises doubts on the basis of the substance of these.

8. At an operational level, competent authorities demonstrated good co-operation and co-ordination on ML/TF issues, but support at the policy-making level is not demonstrated enough regarding strategic coordination of combating ML/TF.

Financial intelligence, ML investigations, prosecutions and confiscation (Chapter 3; IO.6, 7, 8; R.1, 3, 4, 29–32)

9. The competent authorities access a wide variety of sources of financial intelligence and other relevant information when conducting investigations. LEAs leverage financial intelligence mostly to develop evidence and trace criminal proceeds related to associated predicate offences. They rarely use these in the context of ML investigations, and never for TF investigations (but were systematically used in TF pre-investigations led by LEAs). LEAs co-operate with the AMLO to obtain relevant financial intelligence in the framework of their investigations. STRs are generally of good quality and, despite an apparent lack of human resources, the AMLO produces valuable operational analysis. LEAs acknowledge the quality of the AMLO disseminations; however, the ratio between these and launched investigations remains low, and mainly focuses on predicate offences. In addition, LEAs do not provide sufficient feedback to the AMLO as regards the outcome and the quality of its disseminations. The AMLO does not proactively request information from competent authorities to enrich its cases. Although the AMLO conducts strategic analysis, it is limited and does not sufficiently reflect on higher risk areas. Neither does the AMLO provide targeted, and as required a case-by-case feedback to REs on their reporting.

10. Croatia has extensive legal powers enabling identification and investigation of ML. However, the ML is not prioritised as a national policy objective. ML cases are mainly triggered by the AMLO dissemination, and only a few investigations have been triggered by performance of LEAs. It is noticeable that there is a general lack of comprehensive understanding of the ML offence by the judges and to some extent, by prosecutors. Namely, it is a common understanding, as well as an opinion expressed in the Supreme Court jurisprudence that depositing the proceeds of crime in the bank account of different natural persons is the only safe way to store money before its further usage. In addition, cumulative execution of all stages of ML (placement, layering and integration) is required. This affects identification of ML offence by LEAs, and when identified, the high evidentiary threshold for ML offence usually cause authorities to transfer the case to third countries where the predicate crime occurred.

11. There is a sound legal framework in Croatia on freezing, seizing and confiscation of instrumentalities and proceeds of crimes, confiscation of equivalent value, as well as extended confiscation. Confiscation of proceeds, instrumentalities and equivalent value is pursued as a policy objective in Croatia to some extent. The effectiveness of the confiscation in relation to the domestic proceeds generating predicate offences has been achieved to some extent. No significant proceeds of ML offence have been seized or confiscated. Regarding TF, there have been no seizure or confiscation, since Croatia did not investigate or prosecute any TF cases. Cross border cash controls rarely triggered any ML investigation, and administrative sanctions applied are considered not to be dissuasive. The confiscation results achieved so far do not appear to be fully consistent with the level of ML/TF threat present in the country and national AML/CFT policies and priorities.

Terrorist and proliferation financing (Chapter 4; IO.9, 10, 11; R. 1, 4, 5–8, 30, 31 & 39.)

12. Croatia’s legal framework to fight TF is in line with international standards to a large extent. There have been no TF prosecution or conviction in Croatia so far. The authorities did not demonstrate a proper understanding of the TF phenomenon and how different legal and illegal activities can be exploited for TF purposes. There have been no TF investigations, and neither was a proactive approach concerning TF identification demonstrated. The authorities have detected some potential cases of TF, and only preliminary inquiries have been undertaken concerning TF. However, authorities did not demonstrate that they have undertaken appropriate steps to properly detect TF even though the evaluators came across several examples where potential TF activities should have been at least considered for investigation.

13. Croatia implements the UN TFS on TF and PF relying on the EU framework, which does not ensure implementation of those “without delay”. There is no national legal framework set to overcome this delay. No national framework is also set for identifying and designating persons and entities pursuant to UNSCRs 1267/1989 and 1988 and 1373. No procedures or mechanisms for de-listing or unfreezing assets are available publicly. The Standing Group did not demonstrate an active role in implementation of asset freezing requirements in the country. The Ministry of Foreign and European Affairs (MFEA) does not demonstrate actively performing its role in implementation of the UN TFS. Banks and other REs that are members of larger financial groups demonstrated sufficient understanding of TF and PF-related UN TFS requirements. Tools for implementation of the TFS used by the most material REs ensure timely update and effective detection of matches. Smaller REs have weaknesses in understanding some requirements related to the frequency and the scope of checks. While no real match was detected and no assets frozen, several REs confirmed having had false-positive matches with UN TFS listed persons, thus demonstrating the ability to detect matches. Supervision of compliance with PF-related TFS is conducted within the scope of AML/CFT inspections, but there is a need for more frequent supervisory efforts focused on the weaker performing sectors and adequate resourcing.

14. Croatia made efforts to conduct risk assessment in the NPO sector. The NPO sector was considered within the scope of the two NRAs conducted in 2016 (subject to ML vulnerabilities in the sector), 2020 (as a variable for assessing the Country’s TF vulnerabilities), and a thematic analysis by the Financial Inspectorate. None of these exercises lead to identification of the subset of NPOs that fall under the FATF definition and are likely to be at risk of TF abuse by virtue of their characteristics. This has affected the implementation of the targeted measures towards the sector.

Preventive measures (Chapter 5; IO.4; R.9–23)

15. The level of understanding of ML risks, while in conformity with the NRA findings, varies across sectors, being stronger among banks, MVTs, and to a lesser extent among authorised exchange operators, VASPs, lawyers and notaries. Other FIs, and casinos are aware of the NRA findings, but similarly to the rest of the sectors they could not always explain their risk exposure, in practice. With respect to TF risks, banks and MVTs’s understanding is relatively higher than across all other sectors, where understanding is deficient. Overall, all REs could explain their AML/CFT obligations, where FIs could display clear understanding, VASPs – acceptable level, and the DNFBPs – varied, but mostly being at a basic level.

16. Where REs have a limited understanding of ML/TF risks, this has a direct impact on the application of risk-mitigating measures. Banks and MVTs demonstrated advanced practices in applying a risk-based approach, consistent with their risk understanding and assessment of their own

businesses' risks. Authorised exchanges, lawyers and notaries demonstrated the development of their own risk indicators, and casinos, demonstrated the application of additional risk mitigation measures to online gambling services. The majority of other FIs and DNFBPs apply mitigating risks uniformly, without tailoring to their risk characteristics. FIs and DNFBPs exhibited different degrees in application of CDD measures, including the depth and sophistication of ongoing monitoring of business relationships. Relatively stronger performing sectors are banking, MVTs, authorised exchange, and online casino providers. Implementation of CDD requirements to natural persons is adequate, but application of measures to identify BO of a corporate customer raises concerns within all sectors, especially when dealing with complex structures. FIs, especially banks, MVTs, E-money and Payment Institutions demonstrated a higher level of effectiveness in applying EDD measures than the DNFBPs. The application of EDD measures by REs is not always proportionate to the level of observed risks, but rather is applied to meet the legislative obligation only. The STRs align with the risks identified in the NRA to a large extent. The volume of STRs in the banking and MVTs (including the Croatia Post) sectors is largely consistent with the expectations, taking into consideration the materiality and risks present in the sectors than that of the others. STR reporting in non-bank FIs, including authorised exchanges and DNFBPs, including casinos, notaries, and real estate is low and may indicate a lack of understanding of reporting requirements or inadequate controls to identify suspicious activity.

Supervision (Chapter 6; 10.3; R.14, R.26–28, 34, 35)

17. All the licensing authorities and SRBs have in place legislative requirements on the prevention of criminals from holding a management function or being the BO of a REs, but among those the CNB applies robust measures including verification of received information, while the CFSSA does so to a lesser extent. The TA and other licensing bodies apply administrative checks without verifying criminal background information. All FIs and DNFBPs are covered by licensing and registration requirements, except for newly regulated VASP sector, where notification mechanism is introduced and some less material DNFBPs (accountants, TCSPs and dealers in precious metals and stones (DPMS)). The CNB and Financial Inspectorate have a reasonable supervisory framework, and their AML/CFT supervisory efforts are largely aligned to their understanding of the ML/TF risks. The shortcomings of risk understanding by the CFSSA and the TA also impact the effectiveness of the supervision undertaken. In 2020 the CNB revised its supervisory cycles, and the approach which is expected to make the process more risk-oriented, and resource optimised. The supervisory efforts of the Financial Inspectorate are impacted by the shortage of resources and the available IT support. This led to a decrease in on-site and an increase in off-site supervision. Nonetheless this has not affected the overall quality and effectiveness of the supervisory regime. Performance in terms of implementation of AML/CFT supervisory measures are weaker at CFSSA and to a larger extent at the TA, which are responsible for less material sectors. The effectiveness and dissuasiveness of sanctions vary across the supervisors, being stronger at the CNB and Financial Inspectorate, whilst weaker at the CFSSA and TA. Whilst monetary sanctions are imposed through the Council of Misdemeanour Proceedings these are not deemed effective or dissuasive for some sectors, such as Banks.

Transparency and beneficial ownership (Chapter 7; 10.5; R.24, 25)

18. Information on the creation and types of legal persons and arrangements is publicly accessible. While no assessment was conducted the authorities independently of each other demonstrated some understanding of ML but not TF vulnerabilities of legal persons and arrangements. While observing that the limited liability companies (LLC) and Simple LLCs (SLLC) are the types of legal persons that are most frequently abused, Croatian authorities are reluctant to flag certain types of legal persons as

the most vulnerable vehicle for ML, rather, they are inclined to focus on the schemes and criminal conduct itself. There is a range of measures to mitigate the misuse of legal persons and arrangements, such as the requirement to register in various registers, including the BO Register, participation of a Public Notary in the registration process, but all of these have some weaknesses. Access to information and documents by competent authorities is timely, but issues with verification of information and ongoing monitoring undermine the accuracy of the information and how up to date it is. Adequacy of information casts doubts in some instances. Sanctions are not applied in a systematic manner.

International co-operation (Chapter 8; IO.2; R.36–40)

19. Croatia provides constructive assistance in the field of MLA and extradition in relation to ML/TF, and predicate offences (except for the fiscal offences when dealing with non-EU Member States). There are no major issues in international co-operation, but occasional delays are observed when requests are sent through the MoJA. There is no mechanism for prioritising incoming requests. Croatia is seeking foreign co-operation to a limited extent only. This approach might lead the country to miss opportunities for identifying and investigating relevant cases. Throughout the whole reporting period, the outgoing requests on freezing and confiscation of assets remained modest, which is inconsistent with Croatia's geographical exposure to ML and predicate offences. The country has not taken a systematic approach to identifying and eliminating the underlying systemic issues with refusing extradition requests by foreign counterparts. In practice, informal co-operation represents a strong side of the system. The supervisory authorities also demonstrated a relatively good level of international co-operation.

Priority Actions

- a) Croatia should strengthen its high-level policy coordination in combating ML and TF by: (i) introducing policymakers into the AML/CFT coordination mechanism – Inter-Institutional Working Group for the Prevention of ML/TF (IIWG); (ii) articulating the national AML/CFT policies, objectives and activities in a strategic framework, and providing with necessary resources (budgetary and human); (iii) providing the IIWG with necessary powers for implementation of AML/CFT policies, objectives and activities commensurate to ML/TF risks; (iv) ensuring regular monitoring of the implementation of respective AML/CFT policies, objectives and activities by the IIWG, and assessment of the impact on the ML/TF risks in Croatia.
- b) Croatia should enhance its ML/TF risk understanding, deepening it in the areas currently covered in the NRA and further expanding identification and assessment of risks related to ML (organised crime, use of cash cross-border risks, trade-based ML, risks related to VA and VASPs) and TF (OCG, migrant smuggling, remaining stock of weapons, financing of the FTF family members). Croatia should identify, assess and understand vulnerabilities of legal persons and arrangements, and the potential for their ML/TF abuse, and vulnerabilities of the NPO sector for the TF abuse. Croatia should ensure the use of comprehensive quantitative data (actual crime, undetected criminality, STRs, other financial intelligence, foreign co-operation requests, including MLA and other forms of co-operation), in addition to its empirical knowledge.

- c) Croatia should seek to ensure that judiciary and LEAs interpretations and understanding of the ML offence are aligned with the international standards, including by: (i) developing formal guidelines drawing on international and domestic requirements for ML offence and good practices for investigating and prosecuting ML offence; (ii) promoting evolving jurisprudence on ML cases in line with the current criminalisation of ML and international standards; and (iii) holding regular trainings.
- d) Croatia should: (i) conduct analysis of all cases where preliminary inquiries took place to detect potential challenges in pursuing TF investigations/prosecutions; (ii) proactively coordinate between the LEAs and SAO (setting agreement or MoU where necessary) to ensure all potential TF activities are identified, thoroughly analysed, investigated and prosecuted; (iii) develop a guideline drawing on international best practices on TF investigations and prosecutions, setting out the range of circumstances and sources of information (including MLA, EAW and other incoming data) to trigger TF investigations, and (iv) provide trainings to LEAs and judiciary.
- e) Croatia should clearly establish confiscation of criminal proceeds, instrumentalities and property of equivalent value as a high-level policy objective. There should be specific actions aimed at tracing and securing direct/indirect proceeds, as well as foreign proceeds for confiscation purposes. The results achieved should be commensurate with the ML/TF risk of Croatia.
- f) Croatia should ensure that the AMLO is provided with adequate human resources. The AMLO should ensure that its cases are disseminated primarily to competent authorities with law enforcement powers, including by amending and further elaborating its dissemination procedures. The AMLO should: (i) provide more frequent, including as required, case-by-case feedback to REs on the outcomes and the quality of STRs; (ii) provide targeted guidance and training to REs on timely reporting of STRs.
- g) Croatia should introduce mechanisms to ensure: (i) verification of all information provided at the stage of registration of a legal person; (ii) prevention criminals (ML, predicate offences and TF) from acting as a shareholder, BO, or manager of legal person, introducing a requirement for verification of criminal background of these persons, including implementation of the UN TFS measures; (iii) introduction of an ongoing monitoring mechanism for ensuring timely detection and registration of changes to basic and BO information, (iv) implementation of a mechanism for supervision to ensure the accuracy and timely update of information; and (v) imposition of effective, proportionate and dissuasive sanctions for failure to comply with the information requirements, and compiling and maintain statistics on application of sanctions. This should be followed by the assignment of clear responsibilities for authorities with supervisory function, allocation of adequate resources, and regular supervision.
- h) Croatia should establish a national framework for implementation of TF and PF-related UN TFS measures without delay.

- i) Croatia should establish: (i) clear mechanism or channel, and develop a reporting form, for submitting reports to MFEA on frozen assets or actions taken in compliance with the prohibition requirements, including attempted transactions by REs in line with the respective UNSCRs; and (ii) determine the recipient of these disclosures (contact point). Ensure that the MFEA's responsible recipient of disclosures has knowledge, powers and instructions for taking action upon the receipt of the disclosure from a RE. Ensure that all REs are made aware of information on reporting form, contact point and reporting channels, including that this information is publicly available.
- j) Croatia should provide all supervisory authorities with the required human resources to ensure these are adequate to permit supervisory authorities to fulfil their obligations. All authorities with licensing and registration responsibilities should implement effective tools, for the identification of unauthorised operators (including where authorisation is withdrawn or surrendered) that offer (or advertise) regulated activities and conduct systematic monitoring of the market. The CNB should continue and the CFSSA should enhance its efforts in applying robust market entry measures. Other licensing and registration bodies should introduce effective measures for preventing criminals and their associates from holding or being the BO of a significant or controlling interest or holding a management function when granting authorisation.
- k) Croatia should support REs (FIs, DNFBPs and VASPs) to further deepen their understanding of ML risks and develop the TF risk understanding, including also through providing the CTF guidance and training to all REs with a focus on sector-specific TF risks. Croatia should ensure that REs improve their firm-specific business risk assessments, improve implementation of CDD and EDD measures, and increase the STR reporting (especially in low/non - reporting sectors).
- l) Croatia should introduce as a policy objective systematically seeking international co-operation when investigating criminal cases of ML, associated predicate offences or TF with a foreign element. Particular attention should be given to freezing, seizure and confiscation of assets moved abroad in all relevant cases. Croatia should analyse cases of refusal of its outgoing requests, taking appropriate actions to identify and eliminate the systemic issues that prevent constructive international co-operation.

Effectiveness & Technical Compliance Ratings

Effectiveness Ratings¹

IO.1 – Risk, policy and coordination	IO.2 – International co-operation	IO.3 – Supervision	IO.4 – Preventive measures	IO.5 – Legal persons and arrangements	IO.6 – Financial intelligence
Moderate	Substantial	Moderate	Moderate	Moderate	Moderate
IO.7 – ML investigation & prosecution	IO.8 – Confiscation	IO.9 – TF investigation & prosecution	IO.10 – TF preventive measures & financial sanctions	IO.11 – PF financial sanctions	
Low	Moderate	Moderate	Low	Moderate	


Technical Compliance Ratings²

R.1 – assessing risk & applying risk-based approach	R.2 – national co-operation and coordination	R.3 – money laundering offence	R.4 – confiscation & provisional measures	R.5 – terrorist financing offence	R.6 – targeted financial sanctions – terrorism & terrorist financing
PC	PC	LC	LC	LC	PC
R.7 – targeted financial sanctions – proliferation	R.8 – non-profit organisations	R.9 – financial institution secrecy laws	R.10 – Customer due diligence	R.11 – Record keeping	R.12 – Politically exposed persons
PC	PC	C	PC	LC	LC
R.13 – Correspondent banking	R.14 – Money or value transfer services	R.15 – New technologies	R.16 – Wire transfers	R.17 – Reliance on third parties	R.18 – Internal controls and foreign branches and subsidiaries
PC	LC	PC	LC	PC	PC
R.19 – Higher-risk countries	R.20 – Reporting of suspicious transactions	R.21 – Tipping-off and confidentiality	R.22 – DNFBPs: Customer due diligence	R.23 – DNFBPs: Other measures	R.24 – Transparency & BO of legal persons
LC	LC	LC	PC	PC	PC
R.25 – Transparency & BO of legal arrangements	R.26 – Regulation and supervision of financial institutions	R.27 – Powers of supervision	R.28 – Regulation and supervision of DNFBPs	R.29 – Financial intelligence units	R.30 – Responsibilities of law enforcement and investigative authorities
LC	LC	LC	LC	C	C
R.31 – Powers of law enforcement and investigative authorities	R.32 – Cash couriers	R.33 – Statistics	R.34 – Guidance and feedback	R.35 – Sanctions	R.36 – International instruments
LC	PC	PC	C	PC	PC
R.37 – Mutual legal assistance	R.38 – Mutual legal assistance: freezing and confiscation	R.39 – Extradition	R.40 – Other forms of international co-operation		
LC	PC	LC	PC		

¹ Effectiveness ratings can be either a High – HE, Substantial – SE, Moderate – ME, or Low – LE, level of effectiveness.

² Technical compliance ratings can be either a C – compliant, LC – largely compliant, PC – partially compliant or NC – non-compliant.

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