

Bulgaria

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 the Republic of Bulgaria (Bulgaria) as at the date of the onsite visit (6 - 17 September 2021). It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Bulgaria's AML/CFT system and provides recommendations on how the system could be strengthened.

Key Findings

- a) Bulgaria has a reasonable understanding of the main money laundering (ML) risks and limited understanding of the terrorism financing (TF) risks, mainly based on the national risk assessment (NRA). The NRA contains a good initial analysis of the ML and TF threats Bulgaria faces; however, a lack of available and comprehensive statistical data, which varies from sector to sector, generally remains a significant impediment to risk assessment in Bulgaria. Bulgaria's ability to develop national AML/CFT policies to mitigate ML/TF risks is inhibited by the areas of risk understanding that require further improvement. Challenges exist in relation to inter-agency co-operation between LEAs, which is particularly hindered by the lack of necessary tools.
- b) The lack of comprehensive statistics limits the authorities' understanding and their abilities to react to risks. Statistical data for evaluating the use of financial intelligence, investigation and prosecution of ML and TF and related predicate offences, confiscation and international cooperation are particularly limited.
- c) Financial intelligence and related information is available to be accessed by the competent authorities, however, it is used in investigations and to develop evidence in relation to ML/TF and underlying predicate offences only to some extent. The timeliness and effectiveness of the use of financial intelligence and exchange of information is hampered by several technical and procedural limitations. In addition, the current system for reporting suspicious transactions does not ensure prompt reporting in all cases and creates potential tipping off issues. The general quality (and volume) of suspicious transactions reports (STRs) submitted by some sectors, especially by designated non-financial businesses and professions (DNFBPs) is insufficient.
- d) The number of ML investigations, prosecutions and convictions and the severity of the criminal sanctions for ML is generally low compared to the number of registered predicate

offences and is not commensurate with the identified ML risks of the country. Neither LEAs nor the prosecutorial authorities consider ML as a priority and there are no mechanisms in place to prioritize ML cases. The effectiveness of the system is hindered by the high threshold of evidence required for initiating formal pre-trial proceedings by the prosecution, complicated and redundant institutional framework, technical procedural constraints and lack of LEA staff with adequate expertise.

- e) There is no legal or other mandatory requirement to pursue confiscation as a policy objective (e.g. by routinely launching parallel financial investigations or analyses). A number of technical issues hamper the confiscation and there is no mechanism available for the active management of seized assets beyond storage and safekeeping measures. All authorities have difficulties with effectively securing, managing and recovering virtual assets (VAs) despite the frequent occurrence of such assets in case practice.
- f) The authorities involved in the operative analysis, criminal investigation, and prosecution of terrorism-related and TF cases are adequately qualified, experienced, empowered and enabled to identify potential terrorism and TF risks. At the same time a generally low understanding of the TF risks by FIs and DNFBPs (with the exception of banks, payment institutions, e-money institutions and postal money operators) results in low-quality TF-related STRs, which in turn, generate low-quality FIU disseminations with little added value. The investigating and prosecuting authorities did not demonstrate that they take an effective and systematic approach to explore and investigate the financing aspects of the terrorism-related offences occurred. In addition, Bulgaria does not have a national countering terrorism (CT) or countering financing of terrorism (CFT) specific strategy and it was not demonstrated that TF investigations were integrated with, or supported by, other strategies involving CFT aspects or that outcomes of terrorism-related criminal proceedings would, in all cases, be sufficiently used for domestic and UN designations.
- g) Bulgaria implements targeted financial sanctions (TFS) without delay through a combination of supranational and national mechanisms. No assets have been identified and frozen pursuant to the TFS to date. The NRA contains some analysis on the NPOs as a sector, identifying it as being vulnerable to TF abuse to some extent, however, the data collected for the purposes of TF risk assessment does not amount to comprehensive analysis on the activities and vulnerabilities of NPOs. The supervisory measures apply to all NPOs as opposed to NPOs with a higher risk.
- h) Bulgaria implements proliferation financing (PF) related TFS through European Union (EU) regulations and thus is generally impacted by the delays between the designation decision taken by the United Nations Security Councils (UNSCs) and its transposition into the EU framework. All FIs and DNFBPs lack comprehensive understanding of their PF-related obligations. There is a robust export control regime targeting proliferation risks in Bulgaria with the central authority being the inter-ministerial Commission for Export Control and Non-Proliferation of Weapons of Mass Destruction. The activities *per se* also include PF issues, including checks with UNSCR related to PF.
- i) Although supervisors are enhancing their risk-based supervisory models for financial sectors, DNFBP supervision is not risk based and is not effective. This can be attributed to a significant lack of resources in some supervisory authorities. The absence of market entry

measures with a view to prevent criminals in real estate, accountancy, virtual asset service providers (VASPs) and trust and company service providers (TCSs) sectors; as well as currency exchange offices (regarding beneficial owners (BOs), and the gambling sector (regarding higher BO threshold) is of concern, especially given the high level of organized crime (OC) and corruption in Bulgaria.

- j) Knowledge of AML/CFT legal obligations by OEs is generally high and OEs conduct CDD on all clients, however, the majority of OEs need to advance their understanding of risks that are relevant to the nature of their business (beyond NRA) and enhance the application of preventative measures in higher risk areas and monitoring. Insufficient risk understanding may limit OE's ability to identify suspicious activity and transactions which likely contributes to the low rates of suspicious activity reporting of both ML and TF.
- k) Bulgaria has started implementing measures to increase transparency of the country's beneficial ownership regime. However, Bulgaria does not yet comprehensively understand the risks and vulnerabilities of different types of legal persons and arrangements. This has reduced the competent authorities' ability to implement more targeted mitigating measures to ensure transparency of the legal persons. Significant concerns are raised in relation to accuracy of the BO information held in the registers and availability of BO information held by the OEs.
- l) Bulgaria provides generally timely and constructive assistance across the range of requests for international co-operation, including mutual legal assistance (MLA). The effectiveness of the international cooperation is affected by overly formal domestic cooperation procedures, extensive duplication of requesting international cooperation, deficiencies in the legislative framework regarding international legal cooperation with non-EU counterparts, deficiencies in relation to keeping BO information up to date and the absence of guidelines or clear procedures setting out the priorities for executing requests.

Risks and General Situation

2. Bulgaria's understanding of risks is mainly based on the national risk assessment of money laundering and terrorism financing risks (NRA). The main ML risk events identified by Bulgaria as a result of the NRA: laundering of funds from a range of foreign and domestic predicate offences linked to organised crime (primarily drugs, human trafficking and tax evasion) through the exploitation of the formal financial system and extensive use of cash; laundering the proceeds of corruption (particularly noting property and misuse of EU funds) through complex domestic and foreign-based ML layering schemes with assistance of ML professionals; laundering of funds from tax evasion and VAT fraud using straw men; integration of funds in the construction and real estate sector; laundering of funds from foreign predicate offences through non-bank investment intermediaries; laundering of illicit funds generated in the food and oil trade (tax fraud and evasion) using shell companies and informal nominees; laundering of funds from computer and social engineering fraud; and, involvement of ML professionals and reporting entities (due to vulnerabilities in market entry and employee screening).

3. The NRA analysis of the vulnerabilities is not yet sufficiently developed meaning that the analysis of residual risk is limited. The NRA also does not consider in sufficient detail the significant risks connected with a number of major predicate offences that require further detailed consideration – this includes but is

not limited to: risk events linked to the laundering of proceeds of corruption; the use of domestic and foreign legal entities for obscuring beneficial ownership; the involvement of lawyers, accountants and notaries in facilitating ML; and, the potential abuse of investment-related residence and citizenship (IRRC) programme. The lack of detailed risk understanding in these areas inhibits the ability of Bulgaria to develop national AML/CFT policies to mitigate these risks.

4. According to the NRA, TF activity appears to be relatively restricted to the use of cash, money transfer services and the occasional use of illegal/informal financial services (*hawala*). Some TF risks have materialised in Bulgaria regarding the existence of limited financial and material support for foreign organisations functioning abroad and the use of *hawala* system as a conduit for support. The analysis of NPOs sector is limited and needs to be updated.

Overall Level of Compliance and Effectiveness

5. Bulgaria has made several amendments to its AML/CFT legislative framework after adoption of the previous Mutual Evaluation Report in 2019 to address the technical deficiencies identified. However, number of deficiencies remain. There are certain gaps related to domestic cooperation, preventative measures, supervisory mechanisms, dissuasiveness of the sanctions and TFS regime. These shortcomings present challenges for effectiveness.

6. Bulgaria achieves a moderate level of effectiveness regarding the assessment of ML/TF risks and domestic coordination, TF investigation and prosecution, TF preventive measures and TF related TFS, the implementation of preventive measures by FIs and DNFBPs, supervision of FIs and DNFBPs and international cooperation. Bulgaria demonstrates a low level of effectiveness in areas related to the use of financial intelligence, ML investigations and prosecutions, confiscation of criminals' proceeds of crime or property of equivalent value, PF related TFS and the prevention of misuse of legal persons and arrangements.

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

7. Bulgarian authorities have a reasonable level of understanding of the main ML risks Bulgaria faces based largely on the national risk assessment of the ML and TF risks completed in 2019 (NRA). The understanding significantly varies authority to authority and is hindered by limited vulnerabilities analysis, which is not yet sufficiently developed meaning that the analysis of residual risk is limited for certain sectors. Understanding is also hampered by obstacles, i.e. lack of detailed consideration of the significant risks connected with a number of major predicate offences (notably corruption, use of legal entities and professional enablers). The NRA process covers generally the activities of VASPs and the potential misuse of legal persons for ML, however, Bulgaria is yet to comprehensively conduct a risk assessment of these areas.

8. TF risk in Bulgaria is understood to a limited extent by all authorities. It is currently limited to having a basic understanding of the cash economy in Bulgaria by the authorities and a developing understanding of how its geographical position may influence TF risk. Whilst figures exist on incoming and outgoing financial transfers there has been limited analysis of these figures, particularly considering high risk countries. Bulgaria has not conducted a proper and thorough TF risk assessment of its NPO sector.

9. Authorities understand potential for abuse of the IRRC programme by non-resident natural persons and how it can be abused for ML. The particular exposure of the IRRC to the laundering of corruption funds is acknowledged and understood. However, this understanding has not yet translated into appropriate policies to prevent against abuse of the IRRC.

10. Bulgaria faces major issues concerning co-operation and co-ordination at both a strategic level for developing and implementing policies for ML/TF and generally at an operational level. Risk understanding and co-ordination work is also hampered by the lack of suitable technology systems which can work on a multi-agency basis and lack of meaningful statistics in certain areas. The relatively recent development of risk understanding at a national level by authorities has only very recently started to translate into national AML/CFT policies consistent with the risks identified, by virtue of actions that have started and are contained in the Action Plan. Several actions are already underway, with some having made significant progress. However, whilst some competent authorities have focussed on areas identified as higher risks in the NRA, generally the objectives and activities of the competent authorities are not yet consistent with the ML/TF risks identified. The lack of a National Strategy under which such policies can be developed is a significant shortcoming.

11. The assessment of risks is not properly used to justify all exemptions and support the application of enhanced and simplified measures. To the extent it is adequately used, this is only used to some extent.

12. The private sector has a general awareness of the NRA and its conclusions, however, engagement by the country with the private sector has been relatively minimal, therefore limiting their understanding of ML/TF risk. There has been limited outreach to NPOs, FIs and DNFBPs regarding NPO TF risks.

Financial intelligence, ML investigations, prosecutions and confiscation (Chapter 3; 10.6, 7, 8; R.1, 3, 4, 29–32)

13. Financial intelligence and related information are accessed, however, is used in investigations and to develop evidence in relation to ML/TF and underlying predicate offences only to some extent. The timeliness and effectiveness of the use of financial intelligence and exchange is limited by several technical and procedural limitations such as: the lack of suitable IT systems on inter-agency and multi-agency level; the major lack of human and technical resources allocated to the FID-SANS; no clear mechanism for dissemination of the FID-SANS information; limited feedback on use of financial intelligence by LEAs and prosecutors to the FID-SANS. The absence of clear procedures at OEs for the implementation of the postponement mechanism has an effect on the effectiveness of the work of the FID-SANS, as they result in all postponement STRs being handled with an utmost urgency.

14. The current system in place for reporting suspicious transactions does not ensure prompt reporting in all cases and creates potential tipping off issues. The general quality (and volume) of STRs submitted by some sectors, especially by DNFBPs needs improvement. The FID-SANS conducts strategic analysis to some extent, which only to a very limited extent support the needs of other institutions.

15. The number of ML investigations, prosecutions and convictions and the severity of the criminal sanctions for ML is generally low in Bulgaria compared to the number of registered predicate offences and not commensurate with the identified ML risks of the country. Neither LEAs nor the prosecutorial authorities consider ML as a priority and there are no mechanisms in place to prioritize ML cases.

16. The identification, investigation and prosecution of ML and major proceeds-generating offences is hampered by the complicated and redundant institutional framework, lack of LEA's staff with adequate expertise, lack of adequate technical resources and supervision over pre-investigative operation proceedings, absence of the procedures to examine routinely the financial aspects of the proceeds-generating criminality, high threshold of evidence required for initiating formal pre-trial proceedings by prosecution, including for ML cases related to foreign proceeds, and technical procedural constraints.

17. Lack of meaningful and detailed statistics diminish Bulgarian authorities understanding on the composition and characteristics of the ML criminality in the country and abilities to react to risks related to ML, associated predicate offences and TF.

18. Absence of statistics poses an insurmountable impediment to assessing the performance and effectiveness of the criminal (conviction-based) confiscation regime and the actual recovery of confiscated assets. There is no legal or other mandatory requirement to pursue confiscation as a policy objective (e.g., by routinely launching parallel financial investigations or analyses).

19. Number of technical issues hamper the confiscation, and in particular in major proceeds-generating offences, such as: short and strict statutory deadlines in pre-trial proceedings; absence of availability to confiscate from third parties in any other relations other than in ML and TF cases, including the provisional measures regime and the civil confiscation proceedings; the incompleteness of the cross-border cash control regime for stopping and restraining cash/bearer negotiable instruments (BNIs) transported through the internal borders of the EU. There is no mechanism available for the active management of seized assets beyond storage and safekeeping measures and for managing and disposing of property that has been confiscated under the Criminal Code (CC), bearing a direct impact on effectiveness particularly if more complex types of assets have to be managed. All authorities have difficulties to effectively secure, manage and recover virtual assets (VAs) despite the frequent occurrence of such assets in case practice.

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

20. The authorities involved in the operative analysis, criminal investigation, and prosecution of terrorism-related and TF cases appear to be adequately qualified, experienced, empowered and enabled to identify potential terrorism and TF risks. However, generally low understanding of the TF risks by FIs and DNFBPs results in low-quality of TF-related STRs. This in turn generate low-quality FIU disseminations with little added value and the investigating and prosecuting authorities did not demonstrate to have an effective and systematic approach to explore and investigate the financing aspects of the terrorism-related offences occurred.

21. In addition, Bulgaria does not have a national CT or CFT specific strategy, instead of which CT (and to a lesser extent, CFT) elements are included in more general strategies. It was not demonstrated that TF investigations were integrated with or supported those strategies and that outcomes of terrorism-related criminal proceedings in all cases would be sufficiently used for domestic and UN designations.

22. Bulgaria implements the United Nations Security Council Resolutions (UNSCRs) 1267/1989, 1988 and 1373 without delay through a combination of supranational and national mechanisms. No assets have been identified and frozen pursuant to the sanctions regimes under UNSCR 1267/1989, 1988 or 1373, OEs demonstrated awareness of the TFS regime and confirmed that funds or other assets are identified, these would immediately be frozen. The proliferation financing (PF) related TFS is implemented through EU regulations and thus is generally impacted by the delays between the designation decision taken by the United Nations Security Council (UNSC) and its transposition into the EU framework.

23. All OEs showed at least a basic awareness of their obligations in relation to TF and PF-related TFS, but FIs, especially banks, demonstrated the most advanced understanding.

24. TF risks emanating from NPOs have not been comprehensively assessed in the NRA, targeting identification of the overarching risk environment in the sector and missing granularities – the features and types of NPOs which by virtue of their activities or characteristics, are likely to be at risk of terrorist financing

abuse. A registration framework for NPOs is in place, but no CFT focused, or risk-based measures have been developed and applied. Limited outreach conducted to the sector in relation to their TF risks.

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

25. All OEs demonstrate a generally high understanding of the AML/CFT obligations and are aware of the main national risks that are relevant to their businesses, namely - corruption risk and shadow economy linked to the prevalent use of cash. However, the level of understanding on how individual OEs can be abused for ML purposes varies (regarding FIs: banks, securities and investment had generally good understanding, payment institutions and e-money institutions lacked understanding of risks that were relevant to their nature of business and persons providing postal money orders (PMO), currency exchangers and other FIs had limited understanding). Regarding DNFBPs, real estate agents had generally good understanding, gambling operators and lawyers had reasonable understanding and understanding by TCSPs, and notaries was less well developed. VASPs demonstrated good understanding. Consequently, risk mitigation measures applied by OEs to address the risks also vary and is attributed to the varying levels of risk understanding. TF risk understanding is less developed for all sectors and is mainly limited to TFS screening obligations and high-risk country lists.

26. General customer due diligence (CDD) requirements are well understood by the OEs, including the requirement not proceed with business relationships and transactions in cases where satisfactory CDD was not obtained. However, some OEs face difficulties in verifying beneficial owners of the customers, especially those that form complex ownership structures. Some non-banking FIs and DNFBPs rely on CDD conducted by banks to a certain extent by assuming transactions conducted through banks can be trusted as they are subject to close scrutiny.

27. Although enhanced customer due diligence (EDD) requirements are well understood by the OEs, the level of application and scrutiny thereof vary. EDD is commonly applied to high-risk countries and PEPs, however, limited consideration is given to other high-risk circumstances. The low number of high-risk clients relative to the size and scale of the business is a concern, especially in the banking sector given its materiality and risk exposure.

28. All OEs have measures in place to identify PEPs, however, verification mechanisms vary. Difficulties were noted regarding verification of source of funds (SOF) and source of wealth (SOW) information, as well as development of distinct monitoring scenarios to monitor PEP client in an enhanced manner. Varying degrees of understanding have been demonstrated by the OEs to implement TFS related to TF, with banks demonstrating the highest level of knowledge. Although all OEs apply specific and enhanced measures towards high risk third countries, it is not evident that clients from high-risk jurisdictions and transactions are monitored in an enhanced manner. A lack of understanding of what to look out for in order to identify suspicion by the OEs leads to deficiencies in monitoring that translate into the low reporting rates by the OEs, except banks and other payment service providers. This highlights the need for sector specific guidance to identify suspicion, especially in the TF field.

29. Internal control and compliance arrangements in the OEs appear to be proportionate to the OE's size. None of the OEs reported that technical compliance gaps (see TCA) have any impact on their ability to comply in practice.

Supervision (Chapter 6; IO.3; R.14, R.26–28, 34, 35)

30. The Financial Supervision Commission (FSC) and the Bulgarian National Bank (BNB) apply controls to prevent criminals from owning or controlling the entities they supervise; however, no fit and

proper tests are performed on shareholders of currency exchange offices and entry controls for shareholders in the gambling sector are applied at a higher threshold than is permitted by the FATF standard. PMO operators are subjected to limited market entry requirements and real estate agents, virtual asset service providers (VASPs), trust and company service providers (TCSPs) and accountants are not subject to any. Processes of ongoing monitoring for compliance with the entry requirements and detection of close associates of criminals require substantial enhancement.

31. Financial supervisors demonstrate fair knowledge of ML risks in their supervised sectors. The primary AML/CFT supervisor, the FID-SANS, demonstrates understanding of general ML risks which is mainly focused on the ML risk events the country is facing as identified in the NRA, rather than risks and vulnerabilities that individual sectors are facing. TF risk and institutional risk understanding is less developed across all supervisory authorities. The National Revenue Authority (NaRA) seems to underestimate the risks in its supervised gambling and currency exchange sectors; the CRC being a supervisory authority of PMOs is unable to clearly articulate vulnerabilities and risk exposure of the postal money remittance sector.

32. Whilst financial supervisors are taking positive steps with developing risk-based supervisory models, further enhancement is required, especially in relation to institutional risk assessment, i.e., scope and depth of analysis required to conclude on the risks that individual supervised financial institutions are facing. That is especially a concern in banking and MVTs sectors due to their materiality and risk exposure.

33. DNFBP supervision is not risk-based and a very low number of inspections of DNFBPs have been carried out by the FID-SANS to check the compliance with AML/CFT requirements. Inspections of postal money order providers conducted by the CRC have limited effectiveness as they extend only to offsite reviews of internal procedures which is concerning given the materiality and risk exposure of this sector. Regulation and on-site supervision of VASPs are in the infancy stage. Supervision of gambling is under development by the NaRA following the cessation of the former regulator, the SGC.

34. In general, shortage of resources (human, technical and financial) in supervisory authorities (except the BNB and the FSC), especially the FID-SANS, limits the efficiency of the risk-based supervision in terms of the frequency and scope/depth of checks for both, on-site inspections, and off-site reviews; as well as guidance and outreach measures.

35. The AML/CFT sanctioning regime is not proportionate, dissuasive, and effective. There is a prevalence of cases whereby fines are imposed but not settled. Objectiveness of judgement by the supervisory authorities on the level of severity and systemic nature of the breaches is at times questionable. Supervisory authorities have not issued sanctions for infringements in the TFS related to TF area, as supervisors claim never to have identified severe breaches.

36. Supervisory authorities could not fully demonstrate that they make an impact on obliged entities level of compliance with AML/CFT. Instances of repeat infractions by the individual obliged entities, as well as common violations per sector are noted throughout the whole review period (2015-mid-2021).

37. There is lack of sector specific guidance to promote understanding by the obliged entities of AML/CFT and TFS obligations, especially concerning monitoring and identification of suspicious activities and transactions. Supervisory guidance is essential for the most material sectors (banks and MVTs), as well as new or rapidly developing sectors such as online gambling and VASP. No aggregated supervisory feedback is provided on common infractions identified through inspections and/or very little on sectorial and institutional risks.

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

38. Bulgaria has conducted a high-level analysis of the risks associated with the legal persons as part of the NRA exercise in 2020. The risk assessment acknowledges use of the LLC structures as particularly vulnerable to abuse, including prevalent use of strawmen and shell companies in ML schemes. However, given the general nature of the analysis, the precise nature and extent of the risks and particularly the vulnerabilities of all types of legal person are not yet understood. This hampers the level of understanding by the competent authorities of the systemic vulnerabilities and the extent to which legal persons created in Bulgaria can be or are being misused for ML/TF; consequently, it negatively affects the country's ability to effectively mitigate risks related to legal persons and arrangements.

39. Significant issues exist with an exercise Bulgaria has undertaken to convert bearer shares into registered shares by mid-2019, the exercise has not been completed to date and 40% of companies are still to convert shares. Very limited action has been taken by Bulgarian authorities against those who have failed to convert shares. Whilst Bulgaria does not provide for the existence of formal nominees in legislation, there are no verification mechanisms to check for nominee arrangements. However, even in a situation where nominee arrangements were found, there is no legal prohibition for their existence and thus no legal grounds to initiate proceedings.

40. The Bulgarian authorities use a combined approach to ensure basic and BO transparency of the legal persons created in Bulgaria, namely: through information on the various registries which hold beneficial ownership information; through the obliged entities – mostly banks; through the legal entity itself and/or the natural person contact point. However, all of these methods have serious shortcomings that hinder reliability and accuracy of BO information.

41. It can't be ascertained, that beneficial ownership data can be obtained from the OEs in all cases: although the legal persons are legally required to deposit share capital into the Bulgarian bank by opening the account before registering legal person, this requirement does not extend throughout the lifetime of the legal person; legal persons are not legally required to engage a TCSP (lawyer and/or accountant) to register a company; moreover, the statistics on how many Bulgarian registered legal persons have sought services of the TCSPs in Bulgaria are not known. Even in cases where beneficial ownership information is available from the OEs, the evidence, based on the shortcomings that relate to the implementation of the BO legal requirements by the OEs, suggests that BO data held by OEs might not be always reliable. Moreover, the supervisory regime is not fully effective which further hamper reliability of BO information held by the OEs. Linked to this, a regulatory regime for TCSPs is not established in Bulgaria and the exact population of lawyers and accountants conducting TCSP and other activities covered by the FATF standard is not known.

42. In 2018, Bulgaria introduced provisions in the legal acts which provide the legal basis for setting up of a BO registry. However, no verification checks are conducted on the accuracy and how up to date the beneficial ownership information is which is held on the registries. The effectiveness of the Registry Agency in administering the relevant registers is significantly hampered by the lack of resources: human, technical, and financial. Significant issues exist in relation to discrepancy reporting with a very low number of discrepancy reports filed and there are significant issues in taking action to amend the Register. The AT were not able to ascertain if the Register has ever been amended (despite discrepancies) and which agency can amend the Register.

43. Sanctions applied against persons who do not comply with the basic and beneficial ownership information requirements are not effective, proportionate, and dissuasive and very few sanctions were applied in the relevant period.

International cooperation (Chapter 8; IO.2; R.36–40)

44. Bulgarian legislation sets out a comprehensive legal framework for international cooperation in criminal matters, which enables the authorities to provide a broad range of assistance concerning ML/TF and associated predicate offences. The MoJ serves as the central authority for international cooperation in MLA requests in the trial stage in Bulgaria. In the pre-trial stage foreign MLAs (including European Investigative Orders (EIOs)) are executed by prosecutors, where central authority is the General Prosecutors Office. In cases of criminal proceedings channels of cooperation through direct communication are used by the MoI (Police) and the FID-SANS with respective foreign partners.

45. Bulgaria provides generally timely and constructive assistance across the range of requests for international co-operation, including mutual legal assistance (MLA). The effectiveness of the international cooperation is affected by certain technical and procedural deficiencies, which in practice, however, have not yet created major obstacles to provide timely and constructive international legal assistance to foreign counterparts.

Priority Actions**Bulgaria should address following priority actions:**

- a) Increase the understanding of authorities on national level of ML/TF risks and translate that understanding into national AML/CFT policies under the umbrella of a national AML/CFT strategy. Develop better systems to collect sufficient statistics that would support NRA conclusions and further risk understanding work and urgently reconsider the status, structure, and resources of the NRAM WG to ensure its ability to co-ordinate the development and implementation of policies and activities to combat ML/TF and PF effectively.
- b) Take measures to enhance the FID-SANS analysis (both operational and strategic) and dissemination functions, as well as the subsequent financial intelligence functions of LEAs, including increasing the human, IT and other necessary resources of authorities performing financial intelligence activities.
- c) Reconsider the institutional framework for identifying and investigating ML particularly in terms of redundant competencies and ensure that ML should be considered a priority by LEAs and prosecutorial bodies with having necessary strategy or policy to apply risk-based approach. Increase the technical resources and specialization within LEAs and revisit the formalistic and bureaucratic characteristics of the Criminal Procedures Code (CPC) starting with the deadlines in Art. 234 of the CPC and revising the sanctions regime.
- d) Urgently remedy the technical deficiencies relating to seizure and confiscation regime and introduce clear requirements to pursue parallel financial investigations with clear and updated methodological guidance for the practitioners.
- e) Issue a national strategy specifically on CT and CFT related issues. Enhance the FID-SANS' in-depth analysis of TF-related STRs and provide the FID-SANS with sufficient resources and expertise. Ensure that detection and investigation of all financing aspects are carried out in a systematic manner for all terrorism-related offences, extending to all forms of TF.
- f) Urgently develop adequate mechanisms and procedures for delisting and unfreezing with regard to UNSCRs 1276 and 1988. Conduct an in-depth risk assessment of the NPO sector to

form an objective analysis of risks posed by the sector based on underlying comprehensive assessment of all characteristics and statistics to identify those NPOs at risk from terrorist abuse and apply targeted supervision or monitoring towards those at risk, without hampering legitimate NPO activity.

- g) Expand the scope of national mechanism to combat proliferation or introduce a separate PF dedicated mechanism for the coordination and implementation PF related TFS without delay. Ensure adequate supervision and monitor PF-related TFS.
- h) Establish market entry measures with a view to prevent criminals and their associates for currency exchange (regarding BOs), real estate, accountancy, VASPs and TCSPs sectors and gambling sector (regarding higher BO threshold) and take proactive measures to prevent unlicensed *hawala* businesses.
- i) Implement urgent measures to strengthen supervision with AML/CFT requirements by the DNFBPs and strengthen supervision of ML/TF monitoring, STR reporting requirements and TFS across all sectors.
- j) Define and develop a clear nation-wide strategy and guidelines (including set priorities) to ensure systematic proactive and adequate seeking of foreign assistance in line with the investigative priorities. Establish a clear procedure to streamline cases with a foreign nexus, to avoid repetitively seeking assistance in stages of analysis, pre-investigation, and investigation.
- k) Urgently review policies concerning the accuracy of beneficial ownership information on the registers, the role of the Registry Agency and establish more robust mechanisms concerning accuracy of information on the central register along with a more detailed understanding of how LPs and LAs are being or may be misused for ML/TF. Urgently take action to achieve the full registration of the remaining 40% of Joint Stock Companies (JSC) bearer shares.

Effectiveness & Technical Compliance Ratings

Effectiveness Ratings¹

IO.1 – Risk, policy and coordination	IO.2 – International cooperation	IO.3 – Supervision	IO.4 – Preventive measures	IO.5 – Legal persons and arrangements	IO.6 – Financial intelligence
ME	ME	ME	ME	LE	LE
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	
LE	LE	ME	ME	LE	


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

Technical Compliance Ratings²

R.1 – assessing risk & applying risk-based approach	R.2 – national cooperation 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
LC	PC	LC	PC	PC	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	LC	PC	LC	PC
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	PC	PC	LC	C	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	LC	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
PC	PC	PC	PC	LC	LC
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
C	PC	PC	PC	PC	LC
R.37 – Mutual legal assistance	R.38 – Mutual legal assistance: freezing and confiscation	R.39 – Extradition	R.40 – Other forms of international cooperation		
LC	PC	LC	LC		

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

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