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

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Montenegro

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 Montenegro as at the date of the onsite visit (6-17 March 2023). It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Montenegro's AML/CFT system and provides recommendations on how the system could be strengthened.

Key Findings

a)	The competent authorities demonstrated a reasonable understanding on how ML occurs in Montenegro. The understanding of the Montenegrin authorities goes beyond the analysis and findings of the NRAs. The risk understanding of some important ML threats and vulnerabilities needs to be enhanced. The AML/CFT strategic action plans address the identified ML/TF risks to a large extent, however a number of actions are still pending. Most of the key authorities could articulate a clear view on TF threats and vulnerabilities and demonstrated a good level of cooperation. Domestic coordination and cooperation has been demonstrated amongst the competent authorities.

b)	LEAs have access to a wide range of financial intelligence and other relevant information, and actively communicate and coordinate with each other and the FIU during investigations. The FIU accesses a broad range of information which is routinely used for operational and tactical analysis but to a lesser extent for strategic analysis. Financial intelligence is mainly used to develop evidence on and trace proceeds of crime but is not sufficiently used to identify and investigate ML. Reporting is low across all sectors particularly within high-risk DNFBPs. STRs are however fairly useful and constitute the main trigger for FIU disseminations. Lack of feedback from LEAs to the FIU hinders a coordinated response by the authorities to the main ML/TF risks.

c)	The number of ML investigations and prosecutions is relatively low compared to the volume of convictions for high-risk predicates. The prosecutors often prefer pursuing the confiscation of proceeds of crime rather than investigating and prosecuting associated ML. Money laundering investigations are to a limited extent consistent with the risk profile of Montenegro. The number of ML convictions is also low. The type of ML prosecutions and convictions is consistent with the country risks only to a limited extent, with third-party ML,

stand-alone ML and ML from foreign predicates being insufficiently pursued. Criminal sanctions for ML are not applied in an effective, proportionate, and dissuasive manner.

d) The competent authorities of Montenegro have made it a policy objective to deprive criminals of their profits. Financial investigations for tracing and confiscating proceeds of criminal activity are used, however not consistently and systematically. Montenegro has to some extent confiscated proceeds generated from several serious crimes, such as organised crime, drug trafficking and corruption. However, the overall value of confiscated assets derived from the commission of high-risk predicate offences (including drug trafficking perpetrated by Montenegrin OCGs and high-level corruption) is still low. More efforts are necessary to trace, seize and confiscate foreign proceeds and proceeds moved abroad. The controls on cross-border cash movements have yielded some results however more efforts are needed. Confiscation of falsely/not declared cross-border movements of cash is not available as a sanction in Montenegro. Direct access to information on cross-border cash movements by the FIU recently started being used for tactical analysis to detect ML/TF suspicions and is yielding positive results.

e) The authorities demonstrated a good understanding of TF risks going beyond the conclusions of the NRA. The understanding of the TF risk exposure of certain sectors such as banks, MVTSs, and the NPO sector is limited. Montenegrin authorities adopt an intelligence-based approach to detect terrorism and TF suspicions, which ensures a sufficient and effective level of detection and immediate coordinated response. The NSA and SPU are following financial transactions, cross-border movements of cash, but actions are not undertaken to trace other assets that can be used for TF purposes (e.g. VAs). There have been no convictions, nor prosecutions for TF, which is in line with the country's risk profile to a certain extent.

f) Montenegro's legal framework enables the automatic implementation of TF/PF-related TFS under the relevant UNSCRs. Major technical deficiencies (i.e. the narrow scope of the freezing obligation and the high evidentiary threshold for designations under the 1373 mechanism) impact the effectiveness of the system. The risk of abuse of NPOs for TF purposes is not sufficiently understood and addressed, no risk-based measures to NPOs have been introduced and there is no oversight of the sector. Larger FIs demonstrated a generally good awareness of the TF/PF-related TFS obligations, however, concerns remain in relation to other sectors. Relevant coordination and cooperation mechanisms are not yet in place for TFS, nor processes to freeze and unfreeze assets and provide access to the frozen funds.

g) The most material sector by far in Montenegro is the banking sector which demonstrated a good understanding of ML risks and good level of implementation of AML/CFT obligations. The understanding of ML risks was adequate across most other non-bank FIs, with the effectiveness of mitigating measures being adequate and the strongest in important FIs such as MVTSs. The understanding of TF risks is limited across sectors. Certain deficiencies with the identification of BOs persisted across all sectors. Accountants and auditors (which play a central role in the provision of company services) showed a good level of understanding of ML risks and implementation of preventive measures particularly regarding legal

persons. Other DNFBPs did not demonstrate an adequate understanding of risk and implementation of preventive measures.

h) There is a solid licensing regime for banks, a good understanding of ML risks, but a limited understanding of TF risks. The CBM has established an adequate risk assessment framework and risk-based supervision for several years, which requires further development. Major enhancements, particularly regarding the imposition of pecuniary fines via the misdemeanour procedure, are necessary to make the enforcement regime effective and dissuasive in driving compliance. There are no entry requirements for VASPs, real estate agents, accountancy, or legal firms, CSPs, and DPMSs, and the AT has identified major issues with the authorisation regime for providers of games of chance. The effectiveness of supervision and enforcement on the remaining important and moderately important sectors varied extensively from no AML/CFT supervisory framework for VASPs, and no or very limited supervisory actions in relation to lawyers, notaries and CSPs, to sufficient measures in the case of MFIs, MVTSs and the Investment Sector.

i) An adequate level of understanding of the ML risks posed by legal persons was demonstrated by LEAs, FIU and the CBM, but was limited for other authorities. Multiple analyses on ML threats associated with legal entities were carried out. The analysis of vulnerabilities linked to misuse of powers of attorney, shell companies and multi-tiered structures, exposure to misuse for corruption and OCGs, and the adequacy of the control framework have not been properly assessed. TF threats and vulnerabilities were not assessed, and a limited understanding was also demonstrated in this regard. The country has put in place several measures aimed at preventing the misuse of legal persons including the requirements of registration and holding a bank account. There are concerns surrounding the availability of accurate, adequate, and up-to-date basic and BO information.

j) Montenegro provides a wide range of legal assistance in an efficient manner using bilateral and multilateral agreements and international networks. The authorities seek MLA when investigating cases with cross border elements, however, MLAs sought are on the decline and not fully aligned with the risk profile of the country. Police and the FIU actively request and provide other forms of international cooperation with foreign partners, in an appropriate and prompt manner. The FIU however is not as proactive when it comes to the spontaneous sharing of intelligence with its counterparts. The CBM reaches out to international counterparts throughout licensing processes and participates in supervisory colleges, while other supervisors are less proactive. The main financial supervisors have also demonstrated capacity to assist their foreign counterparts although such occasions were limited.

Risks and General Situation

2.   Montenegro is located in the Balkan region and is bordered by the Adriatic Sea to the south-west, Croatia to the west, Bosnia and Herzegovina to the north-west, Serbia to the north-east, Kosovo[*] to the east and Albania to the south-east. Montenegro, although not a EU member State, uses the EURO

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[*] All reference to Kosovo, whether to the territory, institutions or population, in this report shall be understood in full compliance with United Nations Security Council Resolution 1244 and without prejudice to the status of Kosovo.

as the *defacto* domestic official currency since 2002. The banking sector is the most significant across the financial industry, holding 93% of the total assets in the financial system in 2021.

3.   The geographical location of Montenegro impacts the risks related to the smuggling of drugs, migrants, tobacco, and arms as well as human trafficking. Transnational OCGs are exploiting the system to undertake these crimes and are also pursuing loan sharking activities (usury). Montenegro is internationally recognised as forming part of the "Balkan route" for the transiting of drugs across Europe. The authorities consider the following as main ML threats: (i) high level - "drug trafficking at international level", "loan sharking" and "evasion of taxes and contributions", (ii) medium level - "corruption", "serious murders related to organized crime" and "drug trafficking at national level" and (iii) low level - "property crimes".

4.   ML threats were analysed in the NRA to different extents, with some lacking in depth such as: (i) use of cash and informal economy, (ii) abuse of legal persons, (iii) high-level corruption and (iv) Citizenship by Investment Scheme. Sectorial vulnerabilities within sectors other than the banking and insurance sector have not been extensively analysed.

Overall Level of Compliance and Effectiveness

5.   Montenegro has taken several measures to enhance its legal and regulatory framework since the last evaluation, most notable being the adoption of a new AML/CFT law in July 2021, significant enhancements to the FIU capabilities and the implementation of an adequate risk-based supervisory framework for banks and some other FIs by the CBM. The country conducted two NRAs in 2015 and 2020 and a number of other specific risk assessments, with further actions being needed to enhance the understanding of some important threats and vulnerabilities.

6.   Montenegro has an effective AML/CFT system particularly when it comes to the understanding of ML/TF risks and international cooperation. On other aspects more efforts are needed to reach a substantial level of compliance and most notably with regards to the investigation, prosecution and conviction of ML in line with the risk profile of Montenegro, the effective implementation of TF related TFS obligations and the application and oversight of risk-based mitigating measures for the NPO sector.

7.   In terms of technical compliance, various actions have been taken to enhance the legal framework, nonetheless a number of major deficiencies remain with respect to: (i) targeted TF/PF financial sanctions (R.6/7); (ii) regulation and supervision of FIs and DNFBPs (R.10, R.13, R.16-R.19, R.22, R.23, R.26 and R. 28); (iii) measures applied to VAs and VASPs (R.15); (iv) transparency of legal persons (R.24); (v) cash couriers (R.32); (vi) statistics; and (vii) sanctions for failing to comply with AML/CFT requirements (R.35).

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

8.   Montenegro's competent authorities demonstrated a good understanding of the main ML risks in Montenegro, being broader and more structured than the NRA conclusions. ML threats were analysed to different extents, with some lacking in depth including those related to the: (i) use of cash and informal economy, (ii) abuse of legal persons, (iii) high-level corruption and (iv) Citizenship by Investment Scheme. Sectorial vulnerabilities within sectors other than the banking and insurance sector have not been extensively analysed. Most of the key CFT authorities could articulate a clear view on TF threats and vulnerabilities, including potential TF related typologies that might occur in Montenegro, and this despite the limited TF analysis in the NRA.

9.   AML/CFT actions are envisaged under numerous strategic documents, without appropriate consolidation and prioritisation to ensure effective implementation. A number of actions are still pending notwithstanding their importance, which questions the country's commitment to address them. The exemptions and simplified CDD measures set in the LPMLTF are neither supported nor consistent with the results of the NRAs. Domestic cooperation amongst the competent authorities has been demonstrated to a certain extent.

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

Use of Financial Intelligence

10.   The competent authorities access a wide variety of sources of financial intelligence and other relevant information when conducting criminal and financial investigations. Financial intelligence is mainly used to develop evidence and trace proceeds of predicate offences, but is not sufficiently used to identify and investigate ML. The FIU regularly disseminates information to the LEAs and other competent authorities (which is largely aligned with the country's risks) however, its use in ML investigations is limited. This results from the over focus on evidencing the underlying predicate crime when investigating and prosecuting ML and the general lack of prioritisation of the ML offence by LEAs. A positive practice of forming investigative teams with the involvement of the FIU to investigate ML has recently been established, however there is still insufficient feedback provided by the LEAs to the FIU. The level of reporting is low across all sectors, and in particular high-risk sectors such as lawyers, notaries, providers of company services and casinos. STRs constitute the main trigger of FIU disseminations and are fairly usable in this respect.

Investigation and prosecution of ML

11.   The prosecutorial and police authorities of Montenegro have sufficient powers to identify and investigate ML. This however took place in a limited number of cases, mostly in respect to ML related to domestic predicate offences. This is caused by (i) the absence of a clear policy, criteria and an appropriate coordination mechanism applicable to different branches of prosecution and police to identify an investigate ML; (ii) the limited scope of financial investigations which are concentrated on establishing assets subject to confiscation and do not aim at the identification and investigation of ML; (iii) insufficient consideration of high-risk predicates to pursue ML; and (iv) the limited use of incoming international cooperation to detect cases. There is a preference to pursue the confiscation of crime proceeds rather than investigating and prosecuting associated ML.

12.   In the absence of judicial practice and guidance, the prosecutors and judges have an uneven understanding of what constitutes proceeds of criminal activity for stand-alone ML cases. This leads to setting a high evidentiary standard for proving ML. The ML investigations and prosecutions are consistent with the risk profile of the country to a limited extent. Prosecutions have been declining over recent years while conviction are few and not aligned to risk. The prosecution and conviction of third-party ML, stand-alone ML, ML from foreign predicates, and ML perpetrated through legal persons is not sufficiently pursued. Criminal sanctions for ML are not applied in an effective, proportionate, and dissuasive manner, and court delays are hampering the effectiveness of the judicial system to combat ML.

Confiscation

13.   The competent authorities of Montenegro have powers to trace, seize and confiscate criminal proceeds, instrumentalities and property of equivalent value, which are pursued as policy objectives.

Financial investigations are being conducted to some extent and led to confiscation of considerable amount of proceeds. The AT notes however that such investigations were not being applied in a sufficiently consistent and effective manner, due to: (i) lack of awareness and expertise of prosecutors and police (other than the SPO and SPU), (ii) insufficient implementation of the existent policy for financial investigations resulting also from ineffective monitoring thereof; and (iii) and the shortages of human resources at the SPO and the SPU.

14.   Montenegro has confiscated proceeds of domestic predicate offences to some extent. Foreign proceeds of crime and proceeds held by third-parties have been confiscated to a limited extent, while property of equivalent value and proceeds moved to other countries have not been confiscated. The extent to which instrumentalities are confiscated is unknown although authorities provided some limited information to evidence their ability to do so. Proceeds generated from a number of serious crimes, such as organised crime, drug trafficking and corruption have been confiscated to some extent. The overall value of confiscated assets derived from the commission of high-risk predicate offences (including drug trafficking involving major OCGs and high-level corruption) is still inconsistent with the risk-profile of the country.

15.   The authorities demonstrated some experience in managing seized and confiscated assets. Undue delays in criminal proceedings are putting extra pressure on the management of seized assets.

16.   The controls on cross-border cash movements have yielded some results. Nonetheless, considering the country's risks associated with cash usage and cross-border crimes, more efforts are needed. Montenegro does not allow for the permanent confiscation of falsely/not declared cross-border movements of currency and bearer negotiable instruments, and misdemeanour sanctions imposed are not considered dissuasive, effective and neither proportionate. The FIU has recently started making effective use of information on cross-border cash movements for tactical analysis purpose to detect and pursue analysis into ML/TF suspicions.

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

17.   Montenegro's legal framework to counter TF is broadly in line with the international standards. Most of the key CTF authorities demonstrated a generally good understanding of TF-related risks, going beyond the conclusions of the NRA. There is however scope to enhance the understanding of TF vulnerabilities within important sectors such as banks, MVTSs and NPOs, and TF risks linked to cross-border cash movements and use of VAs. During the period under review, there have been no TF investigations or prosecutions which given the gaps in risk understanding is in line with the country's risk profile only to some extent.

18.   The authorities apply an intelligence-based approach to detect terrorism and TF which proves effective. The NSA and SPU are following financial transactions, cross-border movement of cash, but actions are not undertaken to trace other assets that can be used for TF purposes. The AT noted that the high evidentiary threshold applied to initiate TF investigations, the SPU's inability to launch fully-fledged financial investigations upon the receipt of intelligence without the SPO's approval, coupled with the need for more expertise in TF related financial investigations (especially into new methods of terrorism financing) and limited human resources (and ability to retain and recruit staff), limits the country's capability to investigate and prosecute TF.

19.   Coordination and cooperation between key authorities is good at an operational level to respond to specific cases, but less effective when it comes to synchronising high-level operational goals to combat TF.

20.   Montenegro's legal framework enables the implementation without delay of TF-related and PF-related TFS under the relevant UNSCRs. Technical gaps in relation to the scope of the asset freezing obligation (see R.6 / R.7) impact the implementation of TFS obligations. No TF-related or PF-related asset freezing measures were taken during the referenced period, and Montenegro has not proposed any UNSCR 1267 designations on its own initiative, nor has received or made a formal request for designation pursuant to UNSCR 1373.

21.   The implementation of TFS obligations vary amongst sectors. Larger FIs demonstrated a good level of understanding of their TFS obligations. The same cannot be confirmed for other smaller FIs and DNFBPs. DNFBPs are not explicitly required to freeze funds/assets associated with designated persons and demonstrated a low level of awareness in relation to client checks against UN TFS lists, freezing or reporting obligations. The FIU's tool directly linked to the UN Consolidated list and private sector's (larger FIs) reliance on various TFS screening databases, largely mitigate the shortcomings related to the communication of UNSCR designations. The CBM has been actively monitoring the implementation of TFS obligations, while the CBM and CMA have been issuing guidance and conducting outreach in respect to TFS obligations. The quality of monitoring performed by the CBM needs improvement. Other sectors (FIs outside CBM's supervision and DNFBPs) are not being monitored for compliance with TFS requirements.

22.   Montenegro is exposed to TF risks emanating from NPOs activities and has taken first steps to understand TF risks associated with NPO sector. Whilst the authorities were able to articulate some NPO-related vulnerabilities, the other key elements, such as the identification of the subset of organizations falling within the FATF definition of NPO, and of the features and types of NPOs which are likely to be at a risk of TF abuse, are yet to be identified following the conclusion of the on-going NPO risk assessment.

23.   There is no operational PF-related TFS cooperation and coordination mechanism at the country level.

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

24.   Banks have a good understanding of ML risks and effective risk assessment procedures. Among most other FIs, the understanding of general ML risks is adequate, however the understanding of business or sectoral specific risks is at times lacking. Organisers of games of chance's and real estate agents' understanding of ML risks to which they are exposed is negligible. Understanding of TF risk is generally lower across all sectors. Banks and other FIs have a solid understanding of their AML/CFT obligations, however (to the exception of accountants, auditors and other sporadic cases) this awareness is not replicated in the DNFBP sector. Banks and MVTSs generally have effective risk mitigating systems and controls. Investment sector firms' risk mitigating measures, including onboarding and transaction monitoring processes are less developed. Risk mitigating measures put in place by DNFBPs are generally (to the exclusion of accountants and auditors) insufficient to mitigate the specific risks to which they are exposed.

25.   The quality of CDD measures applied by Banks and MVTSs is good, sufficient in the case of other non-bank FIs and accountants/auditors, and inadequate in the case of other DNFBPs. A limited number of banks (including the most material bank) verify the BOs of domestic legal entities through multiple sources other than the CRBE. Most other FIs and DNFBPs (excluding some accountants and lawyers met on-site) rely exclusively on the CRBE. The majority of REs interpret the concept of beneficial ownership as exclusively limited to the ownership of shares and voting rights. Some banks and FIs (other than MVTSs, insurance and financial leasing companies) rely exclusively on PEP

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declarations to identify PEPs. Amongst the FIs, MFIs and insurance companies did not demonstrate an adequate understanding and application of PEP-related EDD obligations. Within the DNFBP sector the awareness and application of PEP EDD measures is limited and applied only by accountants and some notaries. Most DNFBPs do not undertake appropriate actions to identify PEPs. Some FIs (other than banks, MVTSs and insurance companies) and DNFBPs (other than accountants, auditors and firms) demonstrated a lack of awareness of EDD obligations in respect of clients from high-risk jurisdictions.

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

26.   The CBM and CMA have a solid licensing process for banks, other FIs and investment services entities. The lack of systematic cooperation with other local and foreign authorities weakens the CBM's ability to prevent the potential infiltration of criminals and their associates. This deficiency coupled with the overreliance on supplied information and documentation in the case of ISA and accreditation of professionals, likewise hampers all other licensing and authorisation processes. There are no entry requirements and on-going checks in respect to VASPs sector, real estate agents, CSPs, DPMSs and accountancy or legal firms, while it is doubtful whether the Administration for Games of Chance is able to impede criminals from owning casinos.

27.   The CBM and ISA have the most developed understanding of ML risks. The CMA and MoI demonstrated an adequate understanding of generic ML risks. The remaining supervisors showed limited understanding. The understanding of TF risks among all supervisors requires further development. The CBM, and since recently (end 2022) the CMA and the Authority for Inspection Affairs (Games of Chance), have AML/CFT risk frameworks in place. Other supervisors either rely on very generic available information to understand specific sectorial/entity risks or possess no risk information. Risk-based supervision for banks has been applied by the CBM since 2021, and for MFIs since 2022. The ISA and the MoI showed ability to vary the intensity of examinations according to risk (although not having a developed risk-based supervisory framework). Supervision of other FIs and DNFBPs is not risk based. There is no or very limited supervision of high-risk sectors such as lawyers, notaries and CSPs. The CBM conducts good quality examinations, while in the case of other supervisors this needs improvement.

28.   The CBM uses remedial measures in a systemic and consistent manner and is positively impacting AML/CFT compliance. Pecuniary fines have been mainly imposed by the CBM, the MoI, and to a more limited extent the Administration for Inspection Affairs. These are however not effective and dissuasive, while the process for their imposition is hampered by excessively bureaucratic procedures and stringent prescriptive periods. The other financial supervisors mainly rely on written warnings and remedial actions, while the CMA has also withdrawn authorisations on the back of AML/CFT concerns. Other DNFBP supervisory authorities are not taking any supervisory or enforcement measures to drive compliance including in sectors such as gaming, lawyers and notaries which are exposed to high ML/TF risks. There is limited data or information available to monitor the impact of supervisory efforts.

Transparency and beneficial ownership (Chapter 7; IO.5; R.24, 25)

29.   Information on the creation and types of legal persons and arrangements is publicly accessible. Most competent authorities have an adequate understanding of the ML risks posed by legal persons and have assessed elements of the respective ML threats, through multiple exercises. These risk assessments could benefit from further comprehensiveness in relation to vulnerabilities and risk-control measures. The Montenegrin authorities have put in place an array of mitigating measures to prevent legal persons from being misused, which vary in their level of effectivity. The registers and

the registration mechanisms in place, apart from the one administered by the Central Clearing Depository, have a number of shortcomings which impede the effectiveness of the system in place, and the availability of adequate, accurate and up-to date basic and beneficial ownership information. Particularly, overreliance on self–declarations, limited verification, lack of ongoing monitoring of changes and absence of sanctions for failures.

30.   Despite the BO register being largely unpopulated, the authorities demonstrated ability to obtain BO information from: (i) the REs and (ii) legal persons themselves, which are bound to hold accurate and updated BO information. Some concerns were noted on the accuracy of BO data maintained by REs (other than some banks including the major one) and accountants. There are overall concerns on the availability of adequate, accurate and current basic and BO information on foreign legal arrangements operating in Montenegro.

31.   Montenegrin authorities were unable to demonstrate that effective, proportionate and dissuasive sanctions have been applied against persons not complying with the requirements related to basic and beneficial ownership information.

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

32.   Montenegro has a sound legal framework which combines an extensive network of multilateral and bilateral treaties, and mutual regional arrangements. The MoJ is the central authority for the receipt and transmission of MLA and extradition requests. The authorities have provided statistics and examples which demonstrate their ability to effectively execute MLA and extradition requests in a constructive and timely manner. Nevertheless, the handling of requests would benefit from more granular and formalised prioritisation mechanisms and effective case management tools, considering the limitations in human resources required to tend to multiple tasks including international cooperation.

33.   Montenegro seeks information through international judicial cooperation to a generally satisfactory level in respect of cross-border cases of organised crime and drug trafficking, however such cooperation is lacking in respect of corruption, tax evasion and ML reflecting the lower investigation and prosecution of these crimes domestically. A decline in outgoing requests is also noted. The competent authorities appear to actively use other forms of international cooperation for domestic ML/TF analysis and investigation purposes and effectively and promptly assist foreign counterparts. The FIU is well integrated in the international community and is considered a reliable partner, as manifested by the feedback given by the global community. However, the FIU is less proactive in sharing relevant intelligence on a spontaneous basis. The CBM reaches out to international counterparts throughout licensing processes and participates in supervisory colleges, while other supervisors are less proactive. The main financial supervisors have also demonstrated capacity to assist their foreign counterparts although such occasions were limited.

34.   The authorities are effective in exchanging basic and BO information, however the deficiencies identified under IO.5 have a bearing on this capacity.

Priority Actions

National AML/CFT policies and risk understanding.

a) Montenegro should improve the national understanding of risk by:
- Analysing in further detail the ML risks associated with use of cash and the informal economy, high-level corruption, and the misuse of legal persons;
- Analysing more comprehensively the TF risks and in particular the TF risk exposure of banks, MVTSs and NPOs and the potential misuse of cross-border cash movements and new technologies such as VAs and emerging risks; and
- Assessing sectorial vulnerabilities of lawyers, notaries, organisers of games of chance, providers of company services, investment firms, real estate agents and VAs/VASPs; and

b) Montenegro should consolidate and prioritise the national AML/CFT actions set out under the various action plans and take swift action to complete the pending actions.

Tackling ML and Confiscation

c) Montenegrin LEAs and the SPO should (i) enhance the use of financial intelligence and FIU disseminations, and (ii) develop guidelines for identifying and investigating ML applicable to all prosecutors and police officers, which promotes and ensures better use of predicate crime investigations, financial investigations, and incoming international cooperation to detect and investigate ML associated with the high-risk proceeds generating crimes.

d) The authorities should take action to enhance the volume and quality of STRs by: (i) providing adequate feedback to REs on the outcomes and the quality of STRs; (ii) providing targeted guidance and training to REs (focusing on the more material ones) on reporting of STRs; (iii) addressing obstacles to STR reporting noticed in some banks, lawyers and notaries; and (iv) ensuring the practical access and use by all REs to the new electronic system for filing STRs prioritizing the more material ones.

e) Montenegro should define a clear policy for prioritising the identification, investigation and prosecution of ML associated with the high-risk proceeds generating crimes and different types of ML in line with its risk profile.

f) Montenegro should monitor and ensure the effective implementation of the policy on confiscation of criminal proceeds, instrumentalities, and property of equivalent value.

g) The cross-border cash movement controls should be strengthened by: (i) introducing more detailed criteria for the RCA and Border Police to detect cross-border movements of currency and BNIs suspected to relate to ML/TF, and cases of false or non-declarations, (ii) making effective use of data on declarations through strategic types of analysis to detect ML/TF trends and typologies, (iii) conducting respective trainings and (iv) enhancing the sanctioning regime including by enabling the confiscation of falsely/not declared cash or BNIs.

TF, TFS and NPOs

Montenegro should:

h) Continue to enhance the human and material resources of the SPU and SPO, and necessary expertise to effectively investigate and prosecute TF. In particular this should also be accompanied

by (i) more operational independence for the SPU to initiate TF financial investigations, and (ii) provision of training to develop their TF financial analytical capacities and abilities.

i) Develop procedures and guidelines for intelligence and investigatory authorities to detect and investigate TF, including clear guidance on the circumstances and sources of information to trigger TF investigations, and a re-assessment of the appropriate evidentiary threshold to initiate TF investigations.

j) Address the technical deficiencies identified under R.6 and R.7 with respect to the new TFS implementation mechanism, notably by extending the obligation to freeze to all natural and legal persons.

k) Ensure that PF-TFS is embedded in cross-government PF coordination and cooperation, policies and exchanges. Additional steps should also be taken in order to enhance the TF and PF related TFS awareness amongst competent authorities and the private sector.

Supervision and preventive measures

l) Montenegro should introduce market entry requirements for CSPs, DPMSs, legal and accountancy firms, real estate agents and VASPs and enhance the authorisation regime for operators of games of chance by scrutinising BOs of operators systematically and continuously and applying effective source of fund controls.

m) DNFPB supervisors should improve the understanding of sectorial and entity specific ML/TF risks, devise risk-based supervisory models, and carry out risk-based inspections.

n) Supervisory authorities should improve the awareness of ML/TF risks among and across FIs and DNFBPs (other than banks and MVTSs) focusing on those DNFBPs exposed to higher ML/TF risks (i.e. notaries, company formation agents and casinos). Steps should also be taken to improve the understanding of TF risks across the banking and MVTS sectors.

o) Supervisory authorities should take further action (through sectoral guidance and supervisory actions) to improve the application of AML/CFT obligations, particularly (i) the monitoring of customer activity and scrutiny of transactions, and (iii) the application of EDD on PEPs and high-risk countries. Specific focus should be made on banks (for the scrutiny of transactions), MFIs and high-risk DNFBPs (other than large accountancy firms).

Transparency of legal persons

p) Montenegro should introduce systemic mechanisms to:
- verify of all relevant information provided at the stage of registration of a legal person, in particular the verification of identity of all company founders and BOs;
- introduce criminal probity checks and sanction screening for persons acting as (controlling) shareholders, BOs, or managers of a legal person;
- introduce an ongoing monitoring mechanism to ensure timely detection and verification of changes to basic and BO information;
- implement a supervisory mechanism to ensure the accuracy and timely update of information;
- apply effective, proportionate and dissuasive sanctions for failure to retain and provide accurate and timely basic and BO information, and
- compile and maintain statistics on application of sanctions.

International cooperation

q) The various authorities should retain comprehensive statistics and data on all forms of international cooperation, to better manage and continue improving the effectiveness of international cooperation.

r) The MoJ, Courts and the prosecutors should put in place more granular and formalised prioritization mechanisms and increase the capacity of the LURIS and PRIS systems to serve as effective case management tools, especially in respect of passive judicial cooperation in criminal matters.

Effectiveness & Technical Compliance Ratings

Effectiveness Ratings[1]

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
Substantial	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
Moderate	Moderate	Moderate	Moderate	Moderate

Technical Compliance Ratings[2]

[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 – noncompliant.

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	LC	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	NC	LC	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	PC	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
PC	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
PC	PC	LC	PC	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	LC	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	LC	LC	LC		

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