

North Macedonia

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 North Macedonia as at the date of the onsite visit (21 September to 6 October 2022). It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of North Macedonia's AML/CFT system and provides recommendations on how the system could be strengthened.

Key Findings

- a) North Macedonia's authorities have generally a good understanding of the country's ML/TF risks. Two National Risk Assessments (NRA) have been produced, the latter being adopted in 2020. The Financial Intelligence Unit (FIU), law enforcement authorities (LEAs), and financial supervisors have a better understanding of the ML/TF risks than the prosecutorial and judicial authorities. No exemptions or simplified measures have been introduced as a result of the 2020 NRA. The interagency Council for Combating ML and TF is responsible for policy coordination and implementation of the 2020 NRA and relevant action plans. The Council is also in charge of PF related matters. Conclusions of the NRA were widely distributed by the FIU and supervisory agencies to the obliged entities (OEs).
- b) A range of financial, administrative and law enforcement information is accessed by the authorities. LEAs and PPOs only to a limited extent use financial intelligence provided by the FIU to develop evidence and launch investigations in relation to ML/TF and underlying predicate offences. Whilst reasons for this are manifold, lack of adequate resources has been outlined by all authorities (in particular MoI, FP and PPOs) that are competent to detect, investigate and prosecute ML/TF and related predicate offences. LEAs and PPOs view financial intelligence produced by the FIU to be of a good quality and helpful to carry out ML/TF of predicate offences investigations, although almost all STRs (with additional information and analysis) are disseminated to LEAs with only limited filtering and prioritization. Lack of feedback from LEAs and PPOs affect the way how the FIU is tailoring its work to operational needs of these authorities. The quality of STRs is considered good by the FIU.
- c) North Macedonia has established an appropriate institutional framework to investigate and prosecute ML. Although LEAs are aware of the need to carry out parallel financial investigations, these investigations do not seem to be systematically pursued. They rarely follow the money of unidentified origin to detect their potential criminal source and are

mostly conducted in relation to predicate offences. Whereas ML investigations and prosecutions reflect the findings of the NRA and typologies therein, modest number of ML conviction has been achieved. One of the key reasons for this is the evidentiary standard regarding predicate offences in third-party and stand-alone ML cases which appear too high (i.e., usually a conviction for predicate offence is needed).

- d) Confiscation of the proceeds of crime, instrumentalities and property of equivalent value has been considered a policy objective in the AML/CFT Strategies and other strategic documents. Some technical deficiencies, such as some restrictions in respect of confiscation of instrumentalities as well as the limitation in application of temporary freezing measure during the pre-investigative stage of criminal proceedings are in place. Available statistics and cases presented confirm that the amounts confiscated during the period under review, taking into account contextual factors of the jurisdiction, are notable. The application of cross-border cash controls resulted in large amounts of cash restrained although these actions were rarely followed by investigations into potential ML.
- e) Authorities have generally a good understanding of TF-related risks. However, numerous cases of foreign terrorist fighters (FTFs) and some recent developments where returnees from Syria attempted to commit terrorist attacks in North Macedonia, call for reconsideration of the TF risk level. So far there has been one case (against two individuals) where TF was subject to prosecution and conviction. The exact article of the Criminal Code based on which the conviction was achieved refers to 'funding of participation in a foreign army or paramilitary forces'. One prosecution/conviction against two individuals is considered to not fully correspond to the country's risk profile and its threats environment. Financial investigations are a part of investigations targeting terrorism related offences. TF component is integrated in the National Counterterrorism Strategy (2018-2022). Sanctions for TF are proportionate and dissuasive.
- f) Targeted Financial Sanctions (TFS) listing obligations have been given immediate legal effect without delay although there are wider implementation shortcomings. An automatic notification tool quickly informs OEs of changes to UN sanctions lists. No TFS related assets have been identified and frozen to date. National efforts resulted in the listing of 15 individuals (2 on TF suspicion) under UNSCR 1373, although several OEs were notified of this with delays. Authorities have taken action to identify TF threats and vulnerabilities of Non-Profit organisations (NPOs) and undertaken initiatives since 2021 to provide guidance and conduct outreach. This has informed parts of the sector of potential TF risks. There is no risk-based supervision or monitoring of NPOs for TF with authorities at the beginning stages of establishing this following a risk assessment.
- g) North Macedonia implements proliferation financing (PF) though the same legal framework as for TF TFS. TFS obligations relating to changes to relevant UN sanctions lists have been given immediate legal effect without delay. Across sectors the understanding of TFS obligation is uneven, although most FIs (of which banks in particular) would likely be able to identify and freeze assets if a match is confirmed. Supervisors do not generally distinguish between TF and PF TFS in their checks and. financial supervisors have more robust approaches than others. No suspected breaches of TFS have been identified across all sectors.

- h) Understanding of AML/CFT obligations and ML/TF risks by the most material OEs (banking sector) is generally adequate, but more formalistic for the rest of OEs (smaller FIs and the majority of DNFBPs), while provision of services to trusts and companies is neither well understood by the OEs nor by the supervisors. Implementation of CDD and EDD measures is generally in line with the legal requirements, while there is a limited understanding and implementation of specific controls in relation to wire transfer requirements and the understanding of TFS obligations is uneven. The overall number of STRs is incommensurate to the risk, context, and size of the country, some isolated cases of tipping-off have been detected and some DNFBPs expressed concerns about the safeguards to protect STR reporters. Internal controls and procedures tend to be mostly in line with the size and complexity of each entity. OEs belonging to international groups benefit from usually stricter or additional internal controls and procedures introduced on the group level. There was a general absence of risk understanding, mitigation, implementation of preventive measures (besides basic CDD) and internal controls across the VASP sector at the time of the onsite, although this sector has low materiality in the country.
- i) The overall supervisory system applied in North Macedonia presents some positive aspects, and the financial supervisors and the FIU have undertaken efforts to adopt as much as possible a risk-based approach, although it is still unclear up to what extent these have led to positive results, considering the low number of findings resulting from most of the supervisory actions undertaken by all authorities. In addition, there are considerable issues relative to the application of market entry requirements, in particular the lack of harmonisation of the checks carried out by the financial supervisors, the lack of consideration of beneficial ownership when it comes to casinos and the lack of controls to ensure that criminals or their associates do not hold, are beneficial owners of a significant or controlling interest or hold a management function in entities from certain sectors such as real estate agents or VASPs. With respect to sanctioning, despite the number of corrective and coercive actions available to supervisors, the number and amount of pecuniary sanctions is, overall, low, and there are concerns about the proportionality, dissuasiveness and effectiveness of the misdemeanour penalties provided under the AML/CFT Law.
- j) North Macedonia has taken some steps to identify the ML/TF risks associated with legal persons that can be established under its laws and prevent their misuse, although these efforts have proven to be insufficient, due to an uneven consideration of the use of strawmen, the lack of consideration of the presence of shelf companies and providers of services to companies in the country or the significant number of companies being struck-off the register on an annual basis. It is expected for a more in-depth analysis, which was being worked on at the time of the onsite, to address such shortcomings. Some positive steps have also been taken to increase the transparency of legal persons and arrangements, such as the centralisation of public registers, the implementation of a tool for data processing or the establishment of a BO Register, although there are still major shortcomings to ensure that the information is adequate, accurate and up-to-date, since, operationally, it has been shown that there are issues with the quality of the data with which the BO Register is populated. No sanctions are being imposed for failures related to basic or BO information. The presence and risks of trusts and other similar legal arrangements is almost completely disregarded by the authorities.

- k) MLA is provided across a range of requests for ML/TF and predicate offences, including those on extradition. The feedback received from foreign partners is mostly positive with shortcomings related to timelines and quality of responses provided by North Macedonia's authorities. Absence of a specific and integrated case management system for all the relevant authorities and prioritisation mechanisms to some extent have effect on timely execution of international cooperation. In relation to extradition, the authorities are active in requesting and executing extradition requests and main ground for refusal are cases related to unsatisfactory prison conditions. LEAs and the FIU provide and request other form of international cooperation to an adequate extent, however, supervisors should enhance their international cooperation. Issue with availability of BO information (see IO.5) affects the international cooperation in this area.

Risks and General Situation

2. Republic of North Macedonia is located in South-East Europe, in the centre of the Balkan Peninsula. North Macedonia is not a financial centre and its assets weight is low in the large scale of facts at the global financial landscape. The banking sector is the most significant across the financial industry, with assets accounting for 87.8% of the GDP in 2020.

3. The geographical location of the country affects the two key criminal markets, illicit drug trafficking and migrant smuggling. Authorities identified 4 major ML predicate offences, assets of which could be a subject of laundering in North Macedonia: abuse of official position, unauthorized drug trafficking, tax evasion and smuggling of migrants. In addition, TF risk level was assessed as medium-low. In general, the high threat predicate offences have been subject to investigations and prosecutions along with ML.

4. Conclusions of the NRA appear reasonable and comprehensive. They were widely distributed by the FIU and supervisory agencies to the obliged entities. Whereas the ML/TF risk assessment of legal entities is still to be completed, construction sector and informal economy merit further analysis with regard to ML related risks.

Overall Level of Compliance and Effectiveness

5. North Macedonia introduced major amendments to its Anti-Money Laundering and Terrorism Financing Law (AMLTFL) in July 2022, right before the on-site visit of the 5th round of evaluations, considerably enhancing the requirements for application of preventive measures. It also has conducted two NRAs, reports of which were adopted in 2016 and 2020. Important steps were undertaken towards improving transparency of legal persons and arrangements by introducing a BO Register. The amendments to the AML/CFT legislation also included VASPs into the AML/CFT framework, based on which VASPs are subject to regular AML/CFT preventive measures and supervision from April 2023.

6. In terms of technical compliance, the legal framework has been significantly amended, but number of technical shortcomings are noted, some of which present challenges for effectiveness. There are gaps with the definition of TF offence, the implementation of UN TFS on TF and PF, measures with respect to the NPO sector, wire transfer requirements, measures related to legal persons and legal arrangements, supervision of FIs and DNFBPs and sanctions. In addition, the cross-border regime does not cover all the bearer negotiable instruments.

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

7. Both NRAs carried out so far by North Macedonia used the World Bank methodology as a basis. The latter NRA (from 2020) included participation of a wide range of authorities and the private sector. It is a candid and reasonably comprehensive assessment. The National Strategy for Combating ML and TF (Action Plan) developed after the 2nd NRA addresses the major risks identified, and has partially resulted in mitigating measures applied by the authorities. Some vulnerabilities (lack of statistics and resources) identified in the first NRA and meant to be addressed by the relevant Action Plan for 2017- 2019, reappeared in the 2nd NRA and are yet to be addressed. Informal economy accounts to more than 20% of the GDP, but the extent to which it influences ML activities in the country was insufficiently analysed in the NRA. Further consideration appears to be needed regarding the appropriateness of risk level determined for some sectors, such as casinos.

8. The NRA has been complemented with further sectorial and thematic risk assessments, covering virtual assets service providers (VASPs), non-profit organisations (NPOs), TF risk assessment and National serious and organized crime threat assessment, as well as risk assessment by financial supervisors and several strategic analyses prepared by the FIU. The TF risk assessment, despite some major events taking place after 2020, has not been updated.

9. The interagency Council for Combating ML and TF is responsible for policy coordination and implementation of the NRA, relevant action plans and PF related matters. Strategic coordination on combating ML/TF is carried out by the FIU, which also places an additional burden on its limited resources. At an operational level, competent authorities demonstrated good cooperation and coordination on ML/TF issues through the interagency National Coordination Centre (NCC). Conclusions of the NRA were widely distributed to the private sector.

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

10. The FIU constitutes an important source of financial intelligence information in the country. A range of financial, administrative and law enforcement information is accessed by the FIU and its counterpart authorities. The available statistics and stage of development of cases initiated upon financial intelligence produced by the FIU suggest that this intelligence has only been used to a limited extent to develop evidence and launch investigations in relation to ML/TF and underlying predicate offences.

11. The quality of STRs is considered good by the FIU, however, the volume of STRs reported appears incommensurate to the risk, context, and size of the country and there are no STRs reported by several sectors whatsoever.

12. The FIU has to a large extent adequate technical tools in place to perform financial intelligence actions, including, analyses STRs, that would support the needs of its partners – most importantly – the ASKMK system designed for the needs of the FIU. LEAs and PPOs view financial intelligence produced by the FIU as good and helpful to carry out ML/TF of predicate offences investigations. For successful exchange of information, the country has established the NCC, which allows for faster information exchange between competent authorities. However, further improvements in streamlining communication (especially feedback from LEAs and PPO to the FIU) is needed.

13. There are doubts on the extent to which the FIU properly filters and prioritizes information received in STRs. Taking into account that the FIU serves as an intermediary between the OEs and LEAs and is submitting almost all STRs (with additional information and analysis) into disseminations to LEAs. This might restrict LEAs in their ability to focus on the most material cases given the risk profile of the country.

14. North Macedonia has a broad range of LEAs involved in detecting and investigating ML and underlying predicate crime. A specialized prosecutorial office has been established to pursue ML. Despite their efforts, the results of ML investigations/prosecutions are modest. The fact that for ML conviction an existence of prior conviction for predicate offence(s) is needed is a key factor which negatively affects the overall AML efforts by LEAs and prosecutors.

15. LEAs are aware of the need to carry out parallel financial investigations, but these investigations do not seem to be systematically pursued. They rarely follow the money of unidentified origin to detect their potential criminal source and are mostly conducted only in relation to predicate offences. Whilst the authorities argue that lack of resources, in conjunction with the often slow provision of the MLA from some jurisdictions are the key reasons for this, the fact is that judicial authorities need to ensure that interpretation and understanding of ML offence is in line with international standards (primarily on the issue of stand-alone ML in the absence of a conviction for predicate offence). At the time of the on-site visit, the vast majority of cases dealt by LEAs and PPOs was in the phase of what is, strictly legally speaking, classified as 'pre-investigation' phase of the proceedings. Pre-investigation is, de facto, a fully-fledged investigative part of the proceedings, which includes collection of evidence and determination of features of a potential criminal offence. Its timing is, contrary to the investigative phase, limitless, thus also producing a significant discrepancy between (i) the number of ML investigations, prosecutions and convictions, and (ii) the number of pre-investigations launched for ML and proceeds generating predicate offences. Generally speaking, ML investigations and prosecutions reflect the findings of the NRA and typologies therein.

16. Based on the concept of punishing the offences in concurrence, the criminal sanctions imposed for ML in self laundering cases do not add an appropriate value to the final sentence, whose gravity hinges mostly on penalties adjudicated for predicate crime. Even if convictions for the third-party laundering are achieved, most often suspended imprisonment is imposed, accompanied by fines. Apart from that North Macedonia's authorities have not secured any convictions of legal persons.

17. Confiscation of the proceeds of crime, instrumentalities and property of equivalent value has been considered a policy objective in the AML/CFT Strategies and other strategic documents adopted by the authorities. This has been further confirmed through adoption of the Strategy on Financial Investigations and establishing of a proper institutional framework. Against this background, some technical deficiencies, such as some restrictions in respect of confiscation of instrumentalities as well as the limitation in application of temporary freezing measure during the pre-investigative stage of criminal proceedings (i.e. it cannot last longer than 3 months) present a risk that assets identified may not be available to competent authorities once a final confiscation decision is made.

18. Although it remains unknown how many verdicts are passed in cases where assets were seized and then effectively repatriated, some cases presented to the AT included significant amounts of funds and other assets being confiscated. On the other hand, these confiscations result from very few cases, suggesting that the systematic approach in operational matters by all competent authorities is still to be achieved.

19. Property subject to financial investigations has been generated and located in the territory of North Macedonia. At very few occasions search for property originating (or allegedly originating) from crime was carried out cross border. The application of cross-border cash controls resulted in large amounts of cash restrained. These actions were rarely followed by investigations into potential ML offences that could lead to ultimate confiscation of the proceeds.

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

20. Authorities have generally good understanding of TF-related risks. Despite some recent developments where returnees from Syria attempted to commit terrorist attacks in North Macedonia, in conjunction with recent listing of 15 individuals in the national list of terrorists based on the UNSCR 1373, call for reconsideration of the TF risk level.

21. Two individuals have been convicted for what is broadly considered to be TF. The exact article of the Criminal Code based on which the conviction was achieved refers to ‘funding of participation in a foreign army or paramilitary forces’. Whilst the authorities are to be commended for their actions in this particular case, one TF prosecutions against two individuals does not fully correspond to the country’s risk profile and its threats environment. Financial investigations are a part of investigations targeting terrorism related offences. The practice showed that these parallel financial investigations last longer and are more complex than those targeting terrorism. Whilst the results of a number of such investigations (in majority of cases pre-investigations) are yet to be seen, it could be concluded that the competent authorities have good understanding of actions which need to be carried out in TF related investigations. TF component is integrated in the National Counterterrorism Strategy (2018-2022). Although one conviction which resulted in dissuasive and proportionate criminal sanctions appears insufficient to conclude what would be the general sanctioning policy in TF cases, the discussions held on-site confirmed that the competent authorities are aware of the threat posed by TF and are determined to sanction any such activity dissuasively and proportionally. Other measures to disrupt TF have been applied - banning the entry of persons to North Macedonia based on suspicion that they were involved in promoting terrorism, extremism or religious radicalism.

22. In relation to TFS for TF, in North Macedonia the national legal framework does not always ensure immediate implementation of TFS which is a major deficiency. Effective communication mechanisms have recently been introduced for OEs, but many legal and natural persons are not captured by the obligations themselves which undermines effectiveness. TFS-related engagement and guidance has been provided to OEs although this has not been sustained over the long-term. No TF TFS related assets have been frozen or confiscated so far although UNSCR 1373 tools have been used demonstrating willingness to improve effectiveness and the AT strongly commends these efforts.

23. The country has identified the NPOs which fall under the FATF definition of NPO (and could be at risk of TF misuse) through a good risk assessment although it was affected in places by a general lack of robust data - a systemic issue across IOs. The AT considers there to be no risk-based monitoring or supervision. However, the AT commends the positive outreach and guidance that has been provided to some NPOs although authorities have found it a challenge to reach higher-risk NPOs.

24. In relation to TFS for PF (similarly as for TF TFS), the legal framework aimed at implementation of PF TFS without delay has several technical deficiencies. Multiple trainings have been delivered by the FIU to persons subject to the LRM and PF typologies are provided to OEs. Despite this most OEs have a very limited understanding of sanctions evasion.

25. OEs generally have uneven understanding of PF related TFS apart from banks and insurance companies. Challenges in relation to identifying indirect ownership and control were noted. Other FIs, and most DNFBPs and VASPs had inconsistent and broadly limited understanding of LRM obligations and sanctions evasion red flags and typologies. Across all supervisors, one recommendation has been made in relation to TFS improvements of an FI. The AT considers that this is part due to a lack of awareness amongst supervisors of PF related TFS.

26. Whilst TFS-related STRs have been submitted to authorities, there have been none in relation to PF TFS. No assets have been frozen under PF TFS regimes.

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

27. Overall, all categories of OEs tend to provide traditional products and services, with low levels of complexity, sophistication and innovation, as well as a limited risk appetite.

28. FIs and DNFBPs have the obligation to perform risk assessments that are updated at least on an annual basis. Understanding of ML/TF risks is overall good regarding the banking and insurance sectors, the former being, by far, the most material sector in North Macedonia, accounting for more than 80% of the financial sector's assets and representing 87.8% of the country's GDP in 2020. Risk understanding of the majority of DNFBPs and some FIs, such as capital market entities and MVTs providers was more formalistic and focused on compliance with legal obligations, instead of focusing on specific risks applicable to their businesses. Awareness of AML/CFT obligations is generally observed across all sectors, with the exception of some DNFBPs (smaller-sized casinos). Regarding the implementation of risk mitigation measures, their degree and scope depend mostly on the level of importance that each OE assigns to AML/CFT.

29. No TCSPs have been identified by the authorities, although the AT met some OEs which were also providing services to companies such as registered offices, without assessing the risks of these services or applying specific risk mitigating measures, which puts in question the ability of the private sector and the supervisors to understand the risks posed by these activities.

30. Implementation of CDD measures is generally in line with the legal requirements by all sectors, with ongoing monitoring in particular being based on customer risk profiles and generally utilising analysis and crosschecks of various sources data, while DNFBPs mostly rely on manual checks. However, exchanges offices lack measures to adequately identify linked transactions, which impacts the effectiveness of their ongoing monitoring procedures.

31. EDD measures are mostly applied depending on the customer's risk profile and mainly consist of analysis of additional documents, external sources of information and more frequent review of high-risk clients. The better performing sectors (banking and insurance) employ the monitoring of risk scenarios regarding customer behaviour and transactions via dedicated software solutions, while DNFBPs and smaller FIs rely mostly on manual systems, which is commensurate to their size and complexity, and often refuse business relationships with high-risk customers altogether. This notwithstanding, insufficient understanding of the "travel rule" requirements leads to the lack of implementation of additional, enhanced measures by those entities intermediating transfers. In relation to TFS, concerns arise due to an uneven understanding of obligations across sectors and the lack of a unified approach at detecting and managing potential matches, despite a generalised awareness of the consolidated sanctions list hosted at the FIU's new "Restricted Website" platform.

32. The overall number of STRs reported by the private sector is incommensurate to the risk, context and size of the country. While the banking sector accounts for approximately 80% of all STRs, other sectors, such as investment firms, exchange offices or casinos have filed none or close to none STRs during the assessed period, which seems inconsistent to their risk, materiality and volume of cash transaction reports (CTRs) submitted. In terms of substance, not much thought is given by all sectors in general to the typologies being reported. In relation to tipping off, some isolated cases have been detected by the authorities in low materiality sectors (a small credit provider, a law firm and an accounting firm), and some DNFBPs expressed concerns about the safeguards to protect STR reporters not being applied in practice by all competent authorities in all cases.

33. FIs and DNFBPs have internal controls and procedures in place that are commensurate to their size, complexity and risk profile, with properly structured and resourced AML/CFT compliance functions, especially in larger-sized OEs. International financial groups have procedures that enhance AML/CFT compliance by their branches and subsidiaries in North Macedonia.

34. VASPs became OEs in July 2022, but the obligation to comply with AML/CFT requirements does not come into force until April 2023. Although during this transitory period entities are supposed to start harmonising their internal controls and procedures with the requirements of the law, at the time of the onsite, a general absence of risk understanding, mitigation, implementation of preventive measures (besides basic CDD measures) and formal internal controls was observed across the sector, which expressed a heavy reliance on the authorities' inputs.

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

35. The level of scrutiny of the licensing and market entry requirements varies across sectors. The National Bank of the Republic of North Macedonia (NBRNM) applies a series of thorough checks and controls to establish the fitness and properness of the entities and individuals that are applying for licensing, qualifying shareholders and holders of key positions within the institution concerned. The NBRNM powers include the suspension, restriction or withdrawal of an already granted license or registration to an OE. Unlike banks, the authorisation regime for MVTs providers and exchange offices is less comprehensive, focusing on the responsible persons and the employees or offices actually providing the service, and some issues in the capacity to detect unauthorised activities of exchange offices have been detected. The Securities and Exchange Commission (SEC) deals with the licensing of brokerage houses, investment funds management companies and funds themselves, including private funds, and focuses its checks on the qualifying shareholders and directors of OEs, with the ones applied to key function holders not being as extensive. The Insurance Supervision Agency (ISA) applies licensing and fitness and properness checks similar to those of the SEC, although no ongoing monitoring is conducted to ensure that authorised qualifying shareholders still meet the conditions on the basis of which the authorisation was granted. Regarding registration and authorisation of DNFBPs, no information on the beneficial owners (BOs) is sought with respect to operators in the casino sector. Market entry requirements are completely absent for certain sectors such as real estate agents or VASPs.

36. The authorities' risk understanding of the sectors under their supervision reflect the findings of the NRA, with both the NBRNM and the ISA having conducted additional sectorial risk assessments and implemented new supervision and risk scoring methodologies during 2022, and the SEC adopting its new risk assessment methodology after the onsite visit. With regards to DNFBPs, the main risk rating factor was annual turnover, which, on its own, is insufficient to assess ML/TF risks, although the FIU is in the process of implementing a new methodology to assess the sectors under its mandate taking into account a higher number of more relevant risk factors.

37. The NBRNM supervision of banks, MVTs providers and exchange offices is carried out through the use of both off-site and on-site supervisory tools. While it takes into account a considerable volume of information prior to an examination in order to select adequate file samples to assess adequate implementation of EDD measures when it comes to banks, the results of the examinations of MVTs providers and exchange offices are debatable, given the low number of cases where they have resulted in the identification of any breaches, notwithstanding the large number of annual inspections. The SEC also has a good supervisory process in place that combines elements of on-site and off-site supervision together, although the coverage of private funds and investment funds management companies seems to be incommensurate to the risk categorisation of these market participants by the SEC, unlike that of brokerage

services. The ISA's staff dedicated to supervision and frequency of such could benefit from further improvements, even considering the low-risk exposure to ML/TF and an overall adequate AML/CFT performance of the sector under its remit.

38. When it comes to the FIU, it is the primary supervisor for accountants, auditors and leasing and financial (small credit providers) companies, while also holding powers to conduct so-called "extraordinary supervision" over all other OEs and to carry out ordinary supervision of certain categories of DNFBPs jointly with their respective primary supervisors. The supervisory plans of the FIU largely focus on accountants, which represent 90% of the OEs under its remit, and out of all DNFBP supervisors, the FIU inspections tend to uncover the majority and most significant AML/CFT breaches, a stark contrast with the supervision exercised by self-regulatory bodies (SRBs) in relation to the lawyers and notaries sectors, which lacks effectiveness. Regarding the Public Revenue Office (PRO), tasked with the supervision of real estate agents and casinos, it is only in 2022 that it started to fulfil an active role as an AML/CFT supervisor, in the form of 2 on-site inspections alongside the FIU, although it priorly took several steps to enhance its AML/CFT understanding.

39. Supervisors have a number of tools at their disposal to sanction OEs for non-compliance with their AML/CFT obligations, namely corrective and coercive actions, including pecuniary sanctions. Only the FIU, the NBRNM and, to a lesser extent, the SEC have imposed pecuniary sanctions and the overall number and amount of them is low. There are concerns about the dissuasiveness, proportionality and effectiveness of the sanctioning regime under the AML/CFT law, due to the mandatory application of a settlement process (established in the Law of Misdemeanours) that reduces the penalty amount by 50% and the long resolution timeframes if the case is to be resolved by the courts. Authorities could not provide tangible evidence that their supervisory and sanctioning actions were having an impact on OE's compliance with AML/CFT obligations.

40. Outreach actions regarding AML/CFT obligations, such as guidelines and training, have mostly been provided by financial supervisors and the FIU, with the latter's new "Restricted Website" being especially useful in this regard. However, this can, in some instances, foster an overreliance on the risk factors provided by supervisors instead of independent risk-based analysis, which leads to a more formalistic approach to AML/CFT compliance for certain sectors, as described in IO.4.

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

41. Information on the creation of legal persons that can be established under the laws of North Macedonia is publicly available on the website maintained by the Central Register. The said website provides extensive guidance as to how any such entity can be registered by making use of a registration agent (authorised lawyers or accountants to submit information on the legal entity to the Central Register) or by the actual founder/s of the legal person itself. In addition, it provides guidance in respect to the submission of annual financial statements, changes to the legal person or BO information.

42. The NRA has highlighted some possible forms of abuse of legal persons for ML/TF purposes, but this analysis did not take into account relevant phenomena such as how prevalent is the use of strawmen and possible implications thereof or the significant number of legal persons being struck off on an annual basis from the Central Register. The FIU and LEAs demonstrated to have some operational understanding about strawmen and the abuse of legal persons for TF purposes and the FIU also carried out strategic analysis of legal persons declared in STRs. A specific risk assessment focused on legal persons was underway at the time of the onsite, with the aim to cover the potential abuse of incorporated/registered legal persons and those foreign entities that are active in the country.

43. North Macedonia has adopted a series of measures to ensure that legal persons are not abused or misused. In particular, it has established a so-called “One-Stop-Shop” system whereby all registers have been centralised and entrusted to the Central Register, as well as a tool (SORIS) for the continuous processing of data entered into the register. Significant efforts have also been undertaken to establish a BO Register (also contained within the Central Register) which has been active since April 2021 and, as of March 2022, was 92.5% populated. Further safeguards are in place, such as the participation, in certain situations, of lawyers and notaries to register companies and changes thereto, or the auditing of financial accounts, which mitigate, only up to a certain extent, the lack of checks of the Central Register to prevent the misuse of legal persons for ML/TF purposes.

44. Competent authorities in North Macedonia can in a timely manner obtain basic and BO information of legal persons from the Central Register, OEs and legal persons themselves or, where necessary, from foreign counterparts, as well as relevant shareholder information from the Central Securities Depository (CSD). However, there are concerns about the accuracy of the information held by the Central Register, as there is a complete reliance on legal persons and registration agents themselves to ensure the correctness and completeness of the information provided, the Central Register carrying out no verifications of its own. The fact that there is not a clear understanding of “control through other means” in the private sector also impacts the accuracy of the BO information submitted. Furthermore, registration agents, OEs and LEAs have been encountering situations where the actual BO, according to their understanding, is someone other than the individual/s indicated in the BO Register. Even if there are tools available to registration agents and OEs to report discrepancies and suspicions in this regard, conflicting information about such has been provided to the AT, and this reporting obligation does not extend also to authorities.

45. North Macedonia is not a signatory of the Hague Convention on the Law Applicable to Trusts and on their Recognition and, as a result, its laws do not recognise trusts or other similar legal arrangements. This notwithstanding, LEAs and the FIU have sporadically encountered such legal arrangements in the course of their investigations. The ability of authorities to appreciate the risks associated with trusts and similar legal arrangements, including with respect to how these may impact the determination and identification of beneficial ownership, is limited, especially as authorities are of the view that there are no TCSPs active in the country, without tangible evidence to back up this statement. Having said that, from a technical standpoint, OEs have the obligation to obtain BO information when servicing trusts and other legal arrangements, which would be accessible to competent authorities.

46. Although the Law on Trade Companies provides for misdemeanour penalties to be applied where basic information is not provided to the Trade Register or is not otherwise updated accordingly, and the AML/CFT Law provides the same in relation to failures by legal entities and OEs to submit, keep and update BO information, no sanctions have been imposed in this regard. Furthermore, the concerns regarding the proportionality, dissuasiveness and effectiveness of the sanctioning regime under the AML/CFT Law due to the mandatory application of the settlement process would also have to be taken into account.

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

47. North Macedonia provides MLA across a range of requests, including those on extradition. The feedback received from foreign partners is mostly positive, whilst shortcomings have been highlighted in relation to timelines and quality of responses provided by the authorities. Against this background, the overall data on MLA requests sent and received, including details on status of their execution, are not consistently kept by the competent authorities thus making it challenging for the AT to assess to what extent the intensity and results of international cooperation reflect the risk profile of the country. MoJ is a central body for MLA coordination. Better coordination appears to be needed to enable swift analysis and adequate follow up

actions in the field of international cooperation. Absence of a specific and integrated case management system for all the relevant authorities and prioritisation mechanisms to some extent have effect on timely execution of international cooperation.

48. North Macedonia (in particular BPO OCC) is seeking foreign co-operation to a limited extent. The limited appreciation of ML offence in general (see IO.7) by the North Macedonia's authorities affects outgoing MLA requests. In relation to extradition, the authorities are active in requesting its nationals to be extradited to North Macedonia and the number of refused extradition requests in majority of the cases relates to unsatisfactory prison conditions.

49. LEAs request and provide formal and informal assistance with international counterparts using Europol (SIENA), Interpol, CARIN and other channels. At the prosecutorial level, Eurojust and Joint Investigating Teams (JITs) have also been used, so far only for investigating predicate offences. Supervisory co-operation has taken place, particularly amongst competent authorities in material sectors, mostly in relation to fit and proper checks. FIU's international co-operation is supported through its membership in the Egmont Group. Foreign FIUs have provided generally positive feedback and have not identified the existence of any systematic shortcomings in relation to their cooperation with the North Macedonia's FIU.

50. The authorities exchange basic and BO information with their international partners. Although no obstacles in providing the relevant information were identified, the deficiencies related to verification of BO information submitted by respective legal persons, which were identified under IO 5, can impact the quality of BO information, given the fact that the exchange of BO information at an international level (apart from the one provided by the FIU) relies solely on the data contained within the BO Register.

Priority Actions

- North Macedonia should seek to ensure that the judiciary's interpretation and understanding of the ML offence are aligned with the international standards, and that the existence of a conviction for the predicate offence is not a pre-condition for bringing ML charges before the court. Prosecutorial authorities should adopt policy guidelines which would emphasise importance of proceeding in ML cases without waiting for a conviction for the predicate offence.
- Legislative and technical deficiencies concerning the length of seizing/freezing measures in pre-investigative phase should be addressed in order to limit the possibility of assets being released early.
- North Macedonia should ensure that LEAs and PPOs use financial intelligence, including FIUs disseminations more actively to develop evidence and launch investigations in relation to ML/TF and underlying predicate offences. Also, LEAs and PPOs should provide regular feedback to the FIU on the use of financial intelligence so that FIU could better tailor its activity to operational needs of law enforcement, including further prioritize its disseminations.
- The authorities should rectify the remaining deficiencies in criminalising TF, and, in the way they deem appropriate (e.g. through providing a legal interpretation or issuing any guidance), elaborate key principles for harmonised and unified application of relevant legislation, i.e. the application of Article 322(a) of the CC.
- TFS obligations (both for TF and PF) should be extended to all legal and natural persons and not just OEs and the Land Registry. Authorities should take steps to further improve awareness of TFS amongst competent authorities and OEs.

- North Macedonia should take steps to ensure there is risk-based supervision or monitoring of the NPO sector at higher risk of TF abuse, without hampering legitimate NPO activity. It should also consider refreshing the NPO risk assessment to further strengthen the understanding of those NPOs at higher risk of TF abuse and ensure that proportionate measures are applied.
- The FIU should take measures to ensure adequate reporting by all sectors, especially in relation to the sectors with the lowest STRs volumes, most notably casinos and exchange offices. These measures should include outreach to OEs to reassure them about the absolute confidentiality of the STR reporter.
- North Macedonia should: (i) implement the necessary changes to ensure that sanctions imposed are proportionate, effective and dissuasive as well as imposed in a timely manner; (ii) reconsider mandatory requirements which limit the discretion of authorities to tailor the sanction to the circumstances of the case and; (iii) provide any authority charged with sanctioning responsibilities with the necessary human and technical resources.
- North Macedonia should finalise the specific risk assessment with respect to legal persons incorporated or otherwise active in the country and take commensurate measures to address the identified risks, taking into consideration aspects like strawmen, struck-off companies and the eventuality of an unregulated TCSP sector.
- North Macedonia should, at least, include the mechanisms for the: (i) verification of all information provided at the stage of registration of a legal person; (ii) timely detection and registration of changes to basic and BO information, and (iii) supervision of the accuracy and timely update of information registered.
- North Macedonia should develop clear policy objectives for MoJ, prosecutors, LEA and judiciary to ensure systematic and proactive seeking and providing foreign assistance in line with the investigative priorities as well as identified risks. For MLA, North Macedonia should establish a clear procedure to streamline cases with a foreign nexus and introduce an integrated case registration and management system.

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
Substantial	Moderate	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 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	LC	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	LC	LC	LC	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
LC	LC	PC	PC	LC	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
C	C	C	LC	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	LC	PC	LC	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
C	LC	C	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		

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.

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