

LAW ON THE CENTRAL REGISTER OF BENEFICIAL OWNERS

1.50

WHITE BOOK BALANCE SCORE CARD

| Recommendations: | Introduced in the WB: | Significant progress | Certain progress | No progress |
|---|-----------------------|----------------------|------------------|-------------|
| Significant changes should be made to the procedure of registration of the respective data in the Central Register using the certificate. | 2018 | | √ | |
| The sanctions prescribed by the Law should be reduced. | 2019 | | | √ |

CURRENT SITUATION

The Law on Central Register of Beneficial Owners (“Official Gazette of the Republic of Serbia”, No. 41/2018,91/2019 and 105/2021) (hereinafter: the Law) came into force on 8 June 2018.

In accordance with the Law, two rulebooks have been adopted which regulate this matter in more detail: Rulebook on the Content of Central Register of Beneficial Owners for Purpose of Registration of Ultimate Beneficial Owners of Registered Entity and Rulebook on Manner and Conditions for Electronic Exchange of Data between Business Registers Agency (hereinafter: SBRA), other State Authorities and the National Bank of Serbia in order to register Beneficial Owners.

The Central Register was established on 31 December 2018 and is a public, unique, electronic, and centralized database of natural persons who are beneficial owners of a legal entity or another entity registered in the Republic of Serbia, including companies, except for public joint stock companies, business associations and associations, foundations, endowments and other legal entities (hereinafter: Registered entity).

Business companies and institutions in which the Republic of Serbia, an autonomous province, or a local self-government unit, is the sole member or founder are exempted from the application of the Law.

The latest amendments to the Law, which came into force on 1 January 2020, prescribe that the supervision over the registration, accuracy and updating of registered data and storage of data and documents is performed by the SBRA, the National Bank of Serbia, competent state bodies –Tax Administration, Administration for Prevention of Money Laundering, market inspection, as well as that in case of determining irregularities, they can initiate misdemeanor proceedings against the Registered entity and the responsible person in the Registered entity - legal

entity. Supervision over the implementation of the Law and supervision over the work of SBRA in connection with the Central Register is performed by the ministry in charge of economic affairs.

The latest amendments, which entered into force on 16 November 2021, and whose application will begin after 18 months from the date of entry into force, foresee several important changes. Primarily, the Law expands the concept of an authorized person in a manner that it now includes the founder in the process of establishment of the Registered entity electronically, as well as the person who is a legal representative of the Registered entity in all other cases. Following this novelty, the Law now regulates management of the Central Register. Further, last years’ report outlined a problem concerning the obligation of a foreign person to physically come and be present in Serbia in order to be able to register the establishment of a Registered entity, as a difficulty to be overcome. The latter had negative impact on the motivation of foreign investors to establish Registered entities in Serbia. However, with the amendments from 2021, steps have been taken in order to overcome this problem, and for the first time it is foreseen that the registration of the establishment of a Registered entity in the Central Registry can be done indirectly, using an application for receiving electronic applications for the establishment of Registered entities.

Furthermore, the amendments to the Law expand the circle of persons who bear misdemeanor responsibility in the event that they do not record data about the Registered entity or the Beneficial Owners, and a fine of 50,000 to 150,000 dinars is now imposed on to the person responsible for the misdemeanor, that is, the person who is authorized for representation in the Registered entity in all other cases except in the procedure of establishment by electronic means, if it does not act in accordance with the relevant provisions of the law.

As of 1 December 2021, 146,202 entities were registered in the SBRA as the Beneficial Owner. Until this date, a lit-

tle over than 85% of Registered entities have entered their data in the Central Register of Beneficial Owners.¹

POSITIVE DEVELOPMENTS

The aim of expanding the concept of an authorized person with the possibility of data registration also indirectly and electronically is to eliminate the previously existing obstacles and problems for potential investors in registration of data when the basis of registration is the establishment of the Registered entity. Before implementation of the latest amendments to the Law in 2021, the potential investors were easily demotivated in cases when the authorized person for the legal representation performing the registration was a foreign citizen. Due to the previous obligation under the specified basis to register data by mandatory usage of the certificate of an authorized person, that authorized person who is foreign citizen was required to visit Serbia since the takeover of the certificate from an authorized body must be performed exclusively by the personal presence.

The latest amendments enable indirect registration, electronically through an application for receiving electronic applications for the establishment of Registered entities. The practical consequences of this amendment are elimination of the obstacles for foreign investors and simplifying the process of establishment of the company, increasing efficiency, and reducing the rigidity of the process.

¹ <https://www.apr.gov.rs/infografike.4320.html?infol=109>

REMAINING ISSUES

The above-mentioned introduction of indirect registration only applies during the process of establishing Registered entities - it seems as it might be necessary to facilitate the registration process after the Registered entity has been established. This refers especially to the situations when the legal representative of the Registered entity is registered as the Beneficial Owner (which is not uncommon), but there is a change of the legal representative, so that the new legal representative is a foreign citizen (who often does not have a residence in Serbia). Considering that this change would have to be registered not later than 15 days upon the change, the legal representative is required to visit Serbia in a short period because the above-mentioned certificate must be obtained exclusively in person by the legal representative, which may represent an additional logistical challenge.

It is necessary to state that the Law does not "exclude" foreign public joint stock companies (as is the case with the Law on the Prevention of Money Laundering and Financing of Terrorism). That means that if in the ownership structure of the Registered entity there is a foreign listed joint stock company, it is necessary to examine the ownership structure of the listed company, which in most cases is not possible and is not a reasonable approach.

The last remaining issue are the strict sanctions prescribed for failure to comply with the provisions of the Law, which are completely disproportionate to the actions and consequences of the sanctioned action.

FIC RECOMMENDATIONS

- The procedure for electronic registration should be further developed, and the indirect registration of the establishment of the Registered entities should be facilitated.
- The foreign public joint stock companies listed on the reputable stock exchange should be excluded.
- The sanctions prescribed by the Law should be reduced.