

# **MONEYVAL**

**Interim report submitted to Moneyval  
by Cyprus on progress in respect of the  
Special Assessment of the Effectiveness  
of Customer Due Diligence Measures in  
the Banking Sector in Cyprus**

31 March 2014

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# CYPRUS

## Interim Written Report

### *Brief Analysis by the Secretariat of Progress Made in Respect of the Special Assessment of the Effectiveness of Customer Due Diligence Measures in the Banking Sector in Cyprus*

1. At the 43<sup>rd</sup> MONEYVAL Plenary (9-13 December 2013), the Secretariat presented its analysis of Cyprus's progress in the implementation of the recommendations in the report 'Special Assessment of the Effectiveness of Customer Due Diligence Measures in the Banking Sector in Cyprus' (24 April 2013)<sup>1</sup>. While it was acknowledged that in the period since the special assessment the focus of the CBC's efforts had been on strengthening the financial system in Cyprus, it was clear that much work still needed to be done to ensure that the recommendations made by the special assessment team were implemented. The plenary therefore determined that Cyprus was to provide an interim/abbreviated report at the 44<sup>th</sup> Plenary and a fuller report at the 45<sup>th</sup> Plenary.
2. The purpose of this paper is to introduce Cyprus's interim report back to the Plenary concerning the progress made since the 43<sup>rd</sup> Plenary. It contains a brief analysis by the Secretariat focussing on the additional measures adopted by Cypriot authorities and the banking sector since December 2013. More detailed information may be found in the interim report (annexed to this paper), which was submitted by the Cypriot authorities to the Secretariat on 25 March 2014 together with supporting material.
3. On 3 February 2014, the Central Bank of Cyprus (CBC) circulated a set of guidelines to the executive management of all banks in Cyprus. The guidelines cover six areas which encompass all the recommendations made by the special assessment team to the banks (recommendations 1 to 9) and recommendation 10 regarding guidance on tax crimes. The areas covered in the guidelines are: (1) risk management systems; (2) customer due diligence (CDD) measures and the customer's business/risk profile; (3) enhanced CDD measures with respect to politically exposed persons (PEPs); (4) ongoing monitoring; (5) staff training; and (6) fraudulent tax crimes as a predicate offence. The Secretariat reviewed the guidelines and concluded that the contents appear to adequately address the issues that raised concern during the special assessment. In addition to circulating the guidelines, in its covering letter, the CBC reiterated the executive management's ultimate responsibility to ensure that the recommendations made in the special assessment report are implemented by each bank.
4. On 13 February 2014, a letter was sent by the CBC to the compliance officers of all banks requesting them to confirm whether the recommendations made in the special assessment had been implemented and to provide supporting information and documentation. The deadline for the submission of information was 7 March 2014. The CBC indicated that a process is in train to follow-up on the responses provided by the compliance officers. The information gathered by the CBC through this exercise and the information obtained through the annual reports and risk assessment reports submitted by banks on 28 February 2014 (as required by the CBC Directive) is currently being analysed by the CBC to understand the ML/FT risks inherent in each bank and

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<sup>1</sup> [http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/CY\\_eurogroup\\_rep2013.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/CY_eurogroup_rep2013.pdf)

assess the internal controls in place to mitigate and control the risks. This process is an integral part of the risk-based supervisory approach recently set up by the CBC<sup>2</sup> and will form the basis for building up the banks' institutional risk profiles. In this respect, it is to be noted that the CBC has developed a (supervisory) risk assessment methodology and tools providing for:

- a) a comprehensive analysis of inherent ML/TF risks within the following risk factors: customers, products & services, geographic locations/areas, and delivery channels;
  - b) an assessment of the internal control environment that should be in place to mitigate and/or control the inherent ML/TF risks, as identified and measured;
  - c) institutional risk profiles;
  - d) specific AML/CFT supervisory strategies (adapted to institutional risk profiles).
5. On the basis of information gathered by the CBC, it appears that all banks have implemented or are in the process of implementing the recommendations made in the special assessment report. Details were provided by the CBC on the specific measures adopted by banks to implement certain recommendations, such as those relating to PEPs and the customer's business and risk profile. However, the extent to which these measures have been effectively implemented in practice will have to be verified during on-site inspections that the CBC intends to conduct in the course of 2014. It is positively noted that the off-site monitoring measures instituted so far by the CBC will provide a solid basis for the cycle of on-site inspections. The Secretariat was informed that the CBC intends to carry out 11 on-site inspections with the assistance of external auditors. One on-site inspection was conducted in March 2014 utilising the on-site tools developed with the assistance of the IMF.
  6. Further steps have been taken to establish a register of 'blacklisted' third party introducers. The CBC indicated that a questionnaire and a score-card are being developed by the CBC in conjunction with the Cyprus Bank Association to assist banks in assessing third party introducers before establishing a relationship. The register will be maintained by the CBC. Banks will be required to notify the CBC of third parties to be listed in the register. Banks have informed the CBC that the process to re-assess existing relationships with third parties has already been initiated. Access to the register will be granted to all banks and, possibly, other supervisory authorities. It is expected that the CBC Directive will be amended to provide for the operative framework of the register. The CBC informed the Secretariat that 13 banks confirmed that they do not rely on third parties for the purpose of CDD measures.
  7. Training events have been organised by the Cypriot authorities. On 18 March 2014, the CBC organised a seminar with the assistance of an external financial expert aimed at raising the financial sector's awareness and knowledge on specific areas identified in the special assessment as requiring further attention. On 28 March 2014, the CBC in conjunction with the Cyprus FIU conducted a training workshop for the compliance officers of all banks. In February 2014, a seminar on AML/CFT issues was organised for trainee lawyers. Training initiatives were also undertaken internally by the banks, as confirmed in the information provided to the CBC. Other external training activities are scheduled for 2014.
  8. As stated previously in this paper, the CBC issued guidelines on the treatment of ML risks emanating from tax offences. The authorities indicated that all supervisory authorities issued guidelines to explain the new provisions on tax crimes. Although the Secretariat has not received a copy of these guidelines, it was indicated that they are broadly similar to the CBC guidelines. Nevertheless, it appears that the applicable directives themselves have not yet been amended to explain the new provision on tax crimes (see recommendation 10 of the report).

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<sup>2</sup> The steps adopted by the CBC to set up a risk-based supervisory approach are also referred to in the report adopted at the 43rd plenary.

9. The independent assessment of the Company Registry was completed in December 2013. According to the authorities, the backlog of registration documents and unsubmitted annual returns has been cleared. An action plan will be adopted shortly to initiate a restructuring process for the Registry.
10. Measures have also been taken by the Cyprus Securities and Exchange Commission (CySEC), the Cyprus Bar Association (CBA) and the Institute for Certified Public Accountants of Cyprus (ICPAC) in their capacity as AML/CFT supervisors of administrative service providers (ASPs), lawyers and accountants. In particular, CySEC has commenced its on-site supervision of ASPs, reinforced its on-site supervisory unit and strengthened its cooperation with other supervisory authorities. ICPAC has set up a specific committee to provide support to those of its members that provide administrative services<sup>3</sup>. Specific certificates are now issued to ICPAC members that provide administrative services and a register of such persons is maintained. Similar measures were undertaken by the CBA, which has also issued a new Directive to regulate members providing administrative services. A trust register has been set up for Cyprus trusts for which the trustee is supervised by the CBA<sup>4</sup>.
11. The Secretariat considers that sufficient progress has been made by the authorities in the short period since the last plenary to ensure that the banks implement the recommendations made in the special assessment report. Cyprus should provide a fuller report on the progress made at the 45<sup>th</sup> plenary in September 2014. In particular, information should be made available by the authorities on the findings of the on-site inspections which are due to be carried out by the CBC and provide further updates on the ongoing developments within the CBC, the CySEC, the CBA, the ICPAC and the Company Registry.

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<sup>3</sup> In Cyprus, trust and company services are known as administrative services.

<sup>4</sup> Developments by the CySEC, CBA and ICPAC are being monitored by the Troika institutions as part of the action plan which is part of the Memorandum of Understanding on Specific Economic Policy Conditionality for Cyprus (Annex 2 - [http://www.mof.gov.cy/mof/mof.nsf/MoU\\_Final\\_approved\\_13913.pdf](http://www.mof.gov.cy/mof/mof.nsf/MoU_Final_approved_13913.pdf))

**ANNEX**

COUNCIL OF EUROPE



CONSEIL DE L'EUROPE

**MONEYVAL(2014)9**

**COMMITTEE OF EXPERTS  
ON THE EVALUATION OF ANTI-MONEY LAUNDERING MEASURES  
AND THE FINANCING OF TERRORISM**

**Interim Report on the Special Assessment of the Effectiveness of Customer Due Diligence Measures  
in the Banking Sector in Cyprus**

**Submitted to MONEYVAL**

**25 March 2014**

*Note: Information should include measures taken by the Central Bank of Cyprus to ensure that recommendations 1 to 9 made by the assessors in Section G of the Special Assessment report were implemented by the banking sector in Cyprus. Information should also include those measures taken by the banks to implement the recommendations.*

*Where relevant instructions or guidance notes have been issued by the Central Bank of Cyprus or any other supervisory authority to assist the banks or other relevant supervised bodies in meeting the recommendations made in the Special Assessment, please provide a copy of any instructions or guidance notes in English.*

*Where the Central Bank does not currently have up-to-date information on specific measures taken by the banks themselves to meet the recommendations in the Special Assessment, the Central Bank is encouraged either to liaise with the banks directly on these issues or otherwise conduct an information gathering exercise so that progress made by the banking sector itself on these recommendations can be fully reflected in this report.*

*For the supplemental recommendations (10 to 13), information should include measures adopted and implemented at the time when the report was submitted and any draft measures, or measures under review, elaboration or pending formal adoption in the context of the country's internal procedures (eg. at the level of the competent authority(ies), within the parliamentary process or subject to Presidential confirmation).*

1. Each bank should combine all of its risk analyses into an overall AML/CFT risk policy document, for Board approval, based on a thorough and meaningful consideration which should include in particular any risk areas that might not previously have received sufficient attention. This analysis should be updated on a regular basis. Concretely, banks should as part of their overall risk policy:
  - i. Recognise that the accumulation of risks in complex business in itself presents overarching risk;
  - ii. Determine their appetite for such complex business bearing in mind whether the bank is in a position to effectively monitor and control the cumulative risks sufficiently to mitigate the possibility of abuse for purposes of ML (including in respect of tax crimes) and FT;
  - iii. Set out the enhanced measures which need to be taken to mitigate these overarching risks;
  - iv. Specify cases where it is appropriate based on an assessment of the risks to reject or terminate a client relationship.

*[High priority – 6 months and ongoing]*

***Response of the authorities:***

**Measures taken by the Central Bank:**

As we have already briefed, the Prevention and Suppression of Money Laundering and Terrorist Financing Law (“the AML Law”) was last amended in September 2013. A revised version of the Central Bank of Cyprus (“CBC”) Directive issued to credit institutions on the prevention of money laundering and

terrorist financing (4<sup>th</sup> issue) (“the CBC Directive”), which was issued on 4 December 2013, now includes all the measures recommended by the Moneyval assessment team.

- A) Article 58 of the AML Law provides, inter-alia, that any person carrying out financial or other business activities, is obliged to apply adequate and appropriate systems and procedures in relation to internal controls, risk assessment and risk management in order to prevent money laundering and terrorist financing.

Section 3 of the CBC Directive imposes the requirement on the Money Laundering Compliance Officer to identify, record and evaluate all potential risks, with the full commitment and support of Senior Management and the active co-operation of the business units of the credit institution. Once a credit institution has identified the risks it faces then it must design and implement the appropriate systems and controls for their management and mitigation in accordance with the procedures prescribed in the CBC Directive. In addition, credit institutions need to have suitable means of assessing, on a regular basis, that their risk mitigation procedures and controls are working effectively. Systems and controls should be kept under regular review so that risks resulting from changes in the characteristics of existing customers, new customers, products and services are managed and countered effectively. In view of the above, a credit institution should keep its risk assessment report fully updated. It is, therefore, required that a credit institution revisits its assessment at least annually.

In this respect, it is required to submit the risk assessment report on an annual basis to the Board of Directors through the Senior Management for consideration and approval. A copy of the said approved report, together with the Money Laundering Compliance Officer’s Annual Report, should be submitted to the CBC.

Following the said risk assessment, according to section 2 of the CBC Directive, credit institutions are required to develop and establish a clear policy and procedures in line with the provisions of the AML Law and the requirements of the CBC Directive.

The Money Laundering Compliance Officer is obliged to prepare the customer acceptance policy and submit it through the credit institution’s Senior Management to the Board of Directors for consideration and approval. Once it has been approved, the said policy is communicated to the staff.

The said policy should set, in an explicit manner, the criteria for (i) accepting new customers, (ii) the types of customers who do not meet the said criteria and are not, therefore, acceptable for entering into a business relationship and (iii) should prescribe the categories of customers that should be designated as being of high risk. The customer acceptance policy and related procedures should provide for enhanced due diligence for the categories of high risk customers as prescribed in the AML Law, and the CBC Directive (Section 4.14.2) as well as those customers that the credit institution itself has classified as high risk on the basis of its adopted policy.

In this connection, the CBC Directive requires credit institutions to expand their customer acceptance policy to recognise that the accumulation of risks in complex business in itself presents overarching risk and to determine their appetite for such complex business bearing together with the enhanced measures needed to effectively monitor and control the cumulative risks sufficiently to mitigate the possibility of abuse for purposes of ML (including in respect of tax crimes) and FT. Credit Institutions should also specify cases where it is appropriate based on an assessment of the risks to reject or terminate a client relationship.

- B) On 19 June 2013, the CBC (AML Unit) held a meeting with the Money Laundering Compliance Officers of all credit institutions, where it presented and explained the findings of the Moneyval and



Deloitte special assessments. The CBC requested the Money Laundering Compliance Officers of all credit institutions to analyse the findings of both reports and to take corrective measures based on the recommendations of each assessment. The CBC also held individual meetings with the Money Laundering Compliance Officers of the six credit institutions assessed by the independent auditors and distributed a copy of the findings relating specifically to their credit institution. During these meetings the findings of both assessments were discussed in detail. On 2 December 2013, the CBC invited again the Money Laundering Compliance Officers of all credit institutions to reiterate the importance of the application of CDD measures, monitoring of transactions and submission of suspicious activity reports.

- C) On 3 February 2013, the CBC issued a set of Guidelines (a copy is provided to Moneyval) to the Chief Executive Officers/General Managers of all credit institutions, to assist credit institutions in effectively implementing their legal and regulatory obligations and further the goal to mitigate money laundering and terrorist financing (ML/TF) risks, so as to prevent the involvement of the institution for criminal purposes. The said Guidelines cover the following major areas:
- (i) Sound and effective risk management systems to identify and understand ML/TF risks (Appendix 1);
  - (ii) Customer Due Diligence and construction of customer's business/risk profile (Appendix 2);
  - (iii) Enhanced Due Diligence measures in relation to Politically Exposed Persons ("PEPs") (Appendix 3);
  - (iv) Ongoing Monitoring of business relationships and transactions (Appendix 4);
  - (v) Education and Training to staff in relation to money laundering and terrorist financing (Appendix 5);
  - (vi) Fraudulent tax crimes as a predicate offence (Appendix 6).
- D) In addition to the above, the Chief Executive Officers/General Managers of all credit institutions were requested to ensure the implementation of the requirements of the AML Law and the CBC Directive for the effective management of the risks emanating from money laundering or terrorist financing activities, commensurate to the nature, size and complexity of their credit institution's operations. Particularly, they were requested to ensure that:
- (i) Their credit institution has sound and effective risk management systems in place to identify and understand ML/TF risks with respect to their customers, products and services, geographical locations/areas, and delivery channels. Their credit institution's risk management systems include an overall policy for identifying and understanding, measuring, controlling, and monitoring ML/TF risks. The said risk management policy, procedures and measures is submitted to the Management Body (Board of Directors) for approval, and reviewed on a regular basis.
  - (ii) Adequate and appropriate customer identification and due diligence measures are applied and the business/economic and risk profiles of their customers are properly constructed, determined and assigned;
  - (iii) Enhanced due diligence measures are applied to politically exposed persons and particularly the source of wealth of PEPs, is adequately identified and established. Also they were requested to strengthen the implementation of due diligence procedures when seeking to identify 'family members' and 'close associates' of PEPs, and institute systems and procedures to identify customers and persons related to customers, who subsequently become PEPs;
  - (iv) Their credit institution has sound and effective systems and measures in place to demonstrate

ongoing monitoring of the business relationships and particularly for higher risk clients, including PEPs;

- (v) Their credit institution's training programs are reviewed to include information on current ML/TF techniques, methods and trends, and clear explanations of all aspects of the AML/CFT laws and regulations. Moreover, they were requested to ensure that training programmes include requirements concerning customer due diligence, suspicious transaction reporting and sanctions for non-compliance;
- (vi) Their credit institution implements appropriate systems and procedures so as to detect and prevent the laundering of proceeds from fraudulent, serious tax crimes from the financial system; and
- (vii) Their credit institution employs adequate human and other resources to comprehensively implement the requirements and provisions as stipulated in the Prevention and Suppression of Money Laundering Activities Laws of 2007-2013 and the Central Bank of Cyprus Directive on the prevention of money laundering and terrorist financing issued in December 2013.

E) The CBC conducted an information gathering exercise to assess the progress made by credit institutions in the implementation, inter-alia, of the recommendations of the Moneyval special assessment as well as any additional measures taken with respect to any weaknesses/problems they have identified. Particularly, on 13 February 2014, a Circular Letter (a copy is attached for Moneyval) was issued to the Money Laundering Compliance Officers of all credit institutions requesting them to provide their confirmation/attestation on specific measures taken by them and/or their institution, together with the relevant supporting information and/or documentation. In addition, and in accordance to Section 2 and 3 of the CBC Directive, on 28 February 2014, the Money Laundering Compliance Officers of all credit institutions submitted to the CBC copies of their Annual Report and the Risk Assessment Report, both of which were submitted to their Board of Directors for consideration and approval.

Measures taken by the credit institutions:

The Money Laundering Compliance Officers of all credit institutions confirmed that their respective institution has in place a Risk Assessment methodology to identify and understand ML/TF risks within their customer, products, services, geographical locations/areas and delivery channels. According to information and documentation collected from all credit institutions, they have amended their policies and procedures to be in line with the revised legal and regulatory framework. The said policies and procedures, together with the Money Laundering Compliance Officer's Annual Report and the Risk Assessment Report were submitted to the Board of Directors of each institution for consideration and approval (a copy of the said documents and reports was also submitted to the CBC). A small number of credit institutions informed us that the approval from Board of Directors is still pending as the next meeting of the Board is scheduled for March.

In light of the above, the CBC initiated a procedure to follow up the matter to ensure that all institutions are in compliance with the above requirement. In addition, and in line with the new risk-based supervisory approach adopted by the CBC, the AML Unit of the CBC began the process of analysing the Annual Reports and Risk Assessment Reports submitted by each institution so as to understand each institution's inherent ML/TF risks, assess the internal control environment they have in place to mitigate and/or control the inherent ML/TF risks, as well as build the institutional risk profiles.

2. In cases involving an accumulation of high risks, particularly where emanating from the use of complex structures combined with introduced business, banks should strengthen their current procedures in line with their updated risk policy and consistently implement the highest level of enhanced due diligence. This could include (as indicated by some banks in Cyprus as already their practice in high risk cases) direct contact with the ultimate beneficial owner in a larger number of cases. *[High priority – 6 months and ongoing]*

***Response of the authorities:***

Measures taken by the Central Bank:

- A) Article 61(2) of the AML Law requires persons carrying on financial or other business activities to apply the customer identification and due diligence procedures set out in the Law but permits persons carrying out financial or other business activities to determine the extent of such measures on a risk sensitive basis depending on the type of customer, business relationship, product or transaction. It is highlighted that according to the AML Law, persons carrying on financial or other business must be able to demonstrate to the competent authorities that the extent of the measures is appropriate in view of the risks of money laundering and terrorist financing.

In addition to the above Article 64(2) of the AML Law requires persons carrying out financial or other business activities to apply enhanced and additional customer due diligence measures in all instances which due to their nature entail a higher risk of money laundering or terrorist financing.

Section 4.14 of the CBC Directive requires, inter-alia, that for high risk products, accounts or customers, credit institutions should take additional measures for verifying their customers' identity, creating their business profile and ascertaining the source of assets i.e. how they have been acquired and their origin as well as monitor the movement of their transactions on a regular basis. Moreover, it is required that in cases where there is an accumulation of high risks and particularly emanating from the use of complex structures combined with introduced business, credit institutions' enhanced due diligence measures should entail a direct contact with the natural person who ultimately owns or exercises control over a customer. For this purpose, minutes should be prepared following every meeting and kept in the customer's file.

Section 4.12 of the CBC Directive provides that credit institutions may rely on third parties for the implementation of customer identification and due diligence procedures, only at the outset of establishing a business relationship for the purpose of ascertaining and verifying the identity of their customers. According to the degree of risk, any additional data and information for the purpose of updating the customer's business profile during the operation of the account or for the purpose of examining unusual transactions executed through the account, should be obtained from the natural persons (directors, beneficial owners) who control and manage the activities of the customer and have the ultimate responsibility of decision making as regards management of funds and assets.

- B) Please refer to the CBC's response to Question 1 above. Points B to E are relevant.

Measures taken by the credit institutions:

According to the Money Laundering Compliance Officers' confirmations as well as to the documentation provided by the credit institutions, their AML/CFT policy, the Customer Acceptance Policy as well as their AML/CFT procedures were amended to reflect the nature, size and complexity of their respective credit institution's operations. In this connection, they confirmed that their policies and procedures are in line with the requirements of the CBC Directive and set in an explicit manner

the categories of high risk customers, the categories of customers involving accumulation of high risks, the criteria for accepting customers as well as those types of customers who are not acceptable or should be rejected. In addition, their procedures provide, inter-alia, for enhanced due diligence measures to mitigate any ML/TF risk.

3. Banks should implement stricter controls on the use of business introducers to ensure not only that the introducer is regulated but also that the introducer's AML/CFT procedures are reviewed on an ongoing basis. In accordance with best practice reported to the assessors by several credit institutions, where concerns arise on the reliability of CDD conducted by a particular business introducer, or a significant number of SARs relate to customers they introduce, credit institutions should always consider terminating business relations with the introducer. [*High priority – 6 months and ongoing*]

***Response of the authorities:***

**Measures taken by the Central Bank:**

- A) Article 67 of the AML Law permits persons carrying on financial or other business to rely on third parties for the implementation of customer identification and due diligence procedures, as these are prescribed in article 61(1)(a),(b),(c) of the AML Law, provided that the said persons are (i) subject to mandatory professional registration, recognised by law and (ii) are subject to supervision with regard to their compliance with the requirements of the European Union Directive. Moreover, the AML Law explicitly provides that the ultimate responsibility for performing the above mentioned measures and procedures remains with the credit institutions or the other person who carries on the financial or other business which relies on the third person. Consequently, the obligation to apply customer identification and due diligence procedures cannot be delegated to a third person.

The CBC has taken steps to expand its regulation on credit institutions that rely on third parties in recognition of the unique role and risks posed by such entities in the anti-money laundering framework. Particularly, section 4.12 of the CBC Directive requires credit institutions, prior to accepting the customer identification data verified by the said third person, to apply the following additional measures/procedures:

- (i). Obtain a copy of the policy and procedures applied by the third person.
- (ii). Ascertain and evaluate the systems and procedures applied by the third person for the prevention of money laundering and terrorist financing. The said assessment should be performed by the credit institution's Money Laundering Compliance Officer.
- (iii). Collect data and information on the person appointed as a Compliance Officer in accordance with Article 69(1) of the AML Law,
- (iv). As a result of the above mentioned assessment, the credit institution should be satisfied that the third person implements customer identification, due diligence and record keeping systems and procedures which are in line with the requirements of the AML Law and the CBC Directive.
- (v). The Money Laundering Compliance Officer maintains a separate file for every third person where it stores the assessment report and other relevant information (identification details, records of meetings, evidence of professional registration in accordance with the appropriate

law etc).

- (vi). The Money Laundering Compliance Officer reviews on an annual basis the business relationship with the third person.
- (vii). The Money Laundering Compliance Officer keeps a register with data/information (e.g. name, address, work, professional area, supervisory authority, cooperation start date, last date of evaluation, next evaluation date, evaluation grade) on third persons with whom the Bank has entered into cooperation. A copy of the said register should be forwarded to the Central Bank of Cyprus along with the Money Laundering Compliance Officer's Annual Report.
- (viii). The Money Laundering Compliance Officer gives her/his approval for the commencement of the cooperation with the third person.

B) The CBC in cooperation with the credit institutions operating in Cyprus and the Cyprus Bank Association have decided to create a register ("black list") with the names of third persons that do not qualify to introduce business / enter into cooperation with the banks. The CBC had meetings with the credit institutions and the Cyprus Bank Association so as to develop and adopt (i) a questionnaire which will assist them to assess the third parties at the onset of the business relationship and (ii) specific criteria (scorecard) that will be used by the Money Laundering Compliance Officers at the review stage and during the business relationship with them.

Based on the said set of specific criteria (scorecard), the credit institutions must reassess their business relationships with the third persons and will report to the CBC the names of those persons who should be "disqualified". The said registry will be managed by the CBC and access to this register will be given to the Money Laundering Compliance Officers of all credit institutions and, possibly, the other supervisory bodies. The latter will have the responsibility to verify that the names of third persons with whom they have a business relationship do not appear in the said registry. Once the project is finalised, the CBC Directive will be amended accordingly to incorporate specific regulatory requirements on credit institutions and on the operation of the said registry.

C) Please refer to the CBC's response to Question 1 above. Points B to E are relevant.

Measures taken by the credit institutions:

According to the Money Laundering Compliance Officers' confirmations as well as to documentation provided to the CBC, credit institutions amended and enhanced their AML/CFT policies and procedures to be in line with the legal and regulatory framework.

In addition, and as already mentioned above, credit institutions with the assistance of their association and the CBC, have developed a new questionnaire as well as a scorecard that will be used in assessing third parties at the onset and during the business relationships with them. In this connection, the majority of Money Laundering Compliance Officers confirmed that they have begun the process of reassessing existing business relationships with third parties. A couple of credit institutions informed us that they have developed a time plan to implement the above requirement in due course. In this connection, the CBC will follow up the matter to ensure that all institutions are in compliance with the above matter.

It should also be noted that 13 credit institutions confirmed that according to their institution's policy they do not rely on third parties for customer identification and due diligence procedures.

4. When accepting higher risk customers, banks should ensure, where not already the case, that ML/FT risk issues are taken fully into account, with the process involving the expertise of the compliance function in an enhanced advisory role. *[High priority – 6 months and ongoing]*

***Response of the authorities:***

**Measures taken by the Central Bank:**

- A) Article 61(2) of the AML Law requires persons carrying on financial or other business activities to apply the customer identification and due diligence procedures set out in the AML Law but permits persons carrying out financial or other business activities to determine the extent of such measures on a risk sensitive basis depending on the type of customer, business relationship, product or transaction.

In addition to the above Article 64(2) of the AML Law requires persons carrying out financial or other business activities to apply enhanced and additional customer due diligence measures in all instances which due to their nature entail a higher risk of money laundering or terrorist financing.

In this connection, the CBC Directive requires that the Customer Acceptance Policy of each credit institution should define the categories of high risk customers, as these are defined in the AML Law, the CBC Directive (Section 4.14.2) as well as the clients that the credit institution itself has classified as high risk on the basis of the risk assessment and policy it has established.

In addition to the above, Section 4.14 of the CBC Directive provides that, in order to determine what constitutes sufficient customer identification, one should take into account each customer's perceived risk associated with money laundering and terrorist financing. The extent and the number of checks that must be carried out for customer identification may vary depending on the perceived risk of the customer's country of origin or the type of service, product or account requested by the customer, or the customer's background and professional or business activities as well as the level of the expected turnover and transactions. Information on the source of funds, i.e. how payments will be made, from where and by whom should be recorded so as to facilitate future transaction checks.

However, for high risk products, accounts or customers, credit institutions should take additional measures for verifying their customers' identity, creating their business profile and ascertaining the source of assets i.e. how they have been acquired and their origin as well as monitor the movement of their transactions on a regular basis.

It is underlined that a credit institution should be in a position to prove to the Central Bank of Cyprus, if so requested in the context of the latter's supervisory function, that the extent of customer identification and due diligence measures implemented is proportional to the money laundering and terrorist financing risks faced.

In addition to the above the CBC Directive provides that the Money Laundering Compliance Officer should become aware of the prospective high risk customers the credit institution intends to accept, and he/she should act as an advisor before the credit institution establishes a business relationship. Therefore, for existing high risk customers the above said process should be implemented during the updating procedure. Moreover, for the reclassification of high risk customers to a lower risk level the approval of the Money Laundering Compliance Officer is required.

B) Please refer to the CBC's response to Question 1 above. Points B to E are relevant

Measures taken by the credit institutions:

According to the Money Laundering Compliance Officers' confirmations as well as to documentation provided to CBC, all credit institutions' AML/CFT policies and procedures have been amended to be in line with the above mentioned regulatory requirements.

5. Banks should review the resources allocated to the monitoring of high risk international business and where necessary increase resources of compliance departments to fully investigate and properly review all the alerts raised on high risk accounts. Any banks not already conducting such transaction checking thoroughly across the full range of their higher- risk business should be required to improve the effectiveness of their implementation. [*High priority - ongoing*]

***Response of the authorities:***

Measures taken by the Central Bank:

- A) Article 61(1) (d) of the AML Law requires persons engaged in financial or other business to conduct ongoing monitoring of the business relationship including scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with data and information maintained by the person who carries on financial or other business in respect of the customer, the business and the risk profile of the customer, including the source of funds as well as ensuring that the documents, data or information held are kept up-to-date.

Article 58(e) of the AML Law requires credit institutions, inter alia, to examine in detail any transaction which by its nature may be associated with money laundering or terrorist financing and in particular those complex or unusually large transactions and all unusual patterns of transactions which have no apparent economic or visible lawful purpose.

Appendix 2 of the Directive of the Central Bank of Cyprus "A framework of principles of operation and criteria for assessment of credit institutions' organisational structure, internal governance and internal control systems" which defines the "Principles for a sound and an effective operation of information technology systems in the context of managing a credit institution's operational risk" imposes detailed and specific requirements on credit institutions in relation to the secured, effective and efficient operation of systems and services provided through the internet.

Section 4.15 of the CBC Directive requires credit institutions to perform on-going monitoring of customers' accounts and transactions for effective money laundering and terrorist financing preventive procedures. Banks are required to have a full understanding of normal and reasonable account activity of their customers as well as of their business profile and have the means of identifying transactions which fall outside the regular pattern of an account's activity or to identify complex or unusual transactions or transactions without obvious economic purpose or clear legitimate reason. The procedures and intensity of monitoring accounts and examining transactions should be risk sensitive.

In order to accomplish the above, credit institutions are required to introduce and implement adequate

automated/ electronic Management information systems which will be capable of supplying, on a timely basis, all the valid and necessary information for the identification, analysis and effective monitoring of customer accounts and transactions to Management, the Money Laundering Compliance Officer and other responsible officials based on the assessed risk of these accounts and transactions in relation to money laundering or terrorist financing purposes.

B) Please refer to CBC's response to Question 1 above. Points B to E are relevant.

Measures taken by the credit institutions:

According to the Money Laundering Compliance Officers' confirmations their institutions have reviewed the resources allocated to the Money laundering compliance units and to the units monitoring transactions and measures have been taken were needed.

6. Banks should strengthen the implementation of due diligence procedures in relation to PEPs, particularly when seeking to identify 'family members' and 'close associates' of PEPs, ascertaining source of wealth, and identifying customers who subsequently become PEPs. These issues may point to a need for the competent authorities to issue further guidance on establishing sources of wealth. [*Medium priority – 12 months*]

***Response of the authorities:***

Measures taken by the Central Bank:

A) Section 64(1)(c) of the AML Law has been amended to strengthen the implementation of due diligence procedures in relation to politically exposed persons. Particularly, the said requirements do not limit, any more, the scope of the PEP requirements to individuals who have their place of residence in another country. Therefore, the said requirements apply to local PEPs as well as foreign PEPs. Also the AML Law requires that persons providing financial and other activities to have appropriate risk based procedures to determine whether the customer or the beneficial owner is a politically exposed person (family member of PEP's associate). Moreover, it is a legal obligation in the AML Law to address the situations where an existing customer becomes or is subsequently found to be a PEP and the Senior Management's approval is obtained for the continuation of such relationships.

B) Please refer to CBC's response to Question 1 above. Points B to E are relevant.

Measures taken by the credit institutions:

According to Money Laundering Compliance Officers' confirmations as well as to documentation submitted to the CBC, credit institutions amended their AML/CFT policies and procedures to be in line with the above mentioned legal and regulatory requirements. In addition to the above, the majority of credit institutions confirmed that they amended their Account Opening Forms and introduced specific self declaration questions regarding PEPs, family members and/or PEPs' associates. It should be noted that all credit institutions are subscribers to relevant databases for screening their customers and in cases of legal entities, the natural persons (ie UBOs, authorised signatories and Directors) connected with them.

In relation to local PEPs, the credit institutions initiated a procedure to identify, review and reassess



such business relationships, where they existed.

In relation to the requirement to have systems and procedures in place to address the situations where an existing customer or the beneficial becomes or is subsequently found to be a PEP, eleven credit institutions informed us that they already have such a system in place and at least once a month they rescreen their clientele. The rest of the credit institutions informed us that a project has been started so that their IT systems will be amended accordingly or new software will be developed or purchased in order to comply with the above requirement. The CBC will follow up the matter.

7. Banks should ensure that the purpose of the business relationship is identified and recorded in all cases and that the economic and business profile of high risk customers is detailed, meaningful, accurate and regularly updated, where this has not already been done. [*Medium priority – 6-12 months, risk prioritised*]

***Response of the authorities:***

**Measures taken by the Central Bank:**

- A) Section 4 of the CBC Directive covers in detail the customer identification and due diligence measures needed to be applied by credit institutions in order to construct a detailed, meaningful and accurate customer business and economic profile.
- B) Please refer to the CBC's response to Question 1 above. Points B to E are relevant.

**Measures taken by the credit institutions:**

According to the Money Laundering Compliance Officers' confirmations their policies and procedures provide for the collection of adequate information which is detailed, meaningful, accurate and regularly updated. For high risk customers additional/enhanced due diligence measures are applied. Following the Moneyval and Deloitte Special Assessments, and having in mind the weaknesses identified, credit institutions informed us that they have taken a number of steps/measures to ensure that their institution is compliant with the corresponding legal and regulatory requirements. For example, some of the measures taken by credit institutions were the following:

- Policies and procedures have been reviewed, amended and/or enhanced where needed.
- Customers' files were reviewed to ensure that in all cases the construction of business profiles is adequate and meaningful.
- A KYC Unit was established for reviewing customer files and transactions.
- Money Laundering Compliance Officer reviews and approves high risk customers.
- Identification and assessment/evaluation of business relationships with local PEPs.
- The Internal Auditor and the Compliance Department or the Money Laundering Compliance Officer intensified their audits (regular and/or ad hoc visits) to ensure effective implementation of policies and procedures.
- Enhanced/upgraded their IT systems to maintain customer business profiles electronically and/or

identify cases of customers where documents/information is missing and/or generate reports/statistics which facilitate the review/update process.

- High risk customers are visited or contacted directly by credit institution officials.

8. Banks should update any remaining outstanding CDD in relation to existing customers without further delay. [*Medium priority – 6-24 months, risk prioritised*]

***Response of the authorities:***

**Measures taken by the Central Bank:**

- As per Moneyval's Special Assessment report, *a few credit institutions indicated that projects to update verification documentation for customers existing at the time of the material upgrading of the Cypriot AML/CFT requirements in 2007/8 were, to some extent, still in progress. The credit institutions concerned informed the assessors that the outstanding work related to retail business and the omissions were mainly technical in nature (e.g. no copy of utility bill, out-of-date identification document) but may also include incomplete customer profile to provide the base line for ongoing due diligence. In general, most of the customer base, including larger, riskier, and corporate customers appeared to have been addressed at this stage. The assessors are not in a position to confirm the extent of the gaps or determine whether they are sufficiently material to undermine the findings of the current exercise.*
- The process of updating verification documentation is an ongoing task performed by the credit institutions and assessed during the CBC's onsite examinations.
- Please refer to CBC's response to Question 1 above. Points B to E are relevant

**Measures taken by the credit institutions:**

According to the Money Laundering Compliance Officers' confirmations their policies and procedures in relation to the update and review of customers' files and transactions have been reviewed and amended where it was needed, so as to be in line with the requirements of the CBC Directive.

A number of credit institutions confirmed that following the two special assessments their customers' files have been reviewed. One credit institution informed us that it has established a KYC update unit within the compliance department that is assigned with the task of reviewing and updating the KYC data for high risk customers or whenever certain trigger events occurs. A great number of credit institutions informed us that they have amended or they plan to amend their IT systems so as to monitor and ensure that the review process is performed electronically. The CBC response to Question 8 is also relevant.

9. Banks should review their current staff training arrangements, both for client-facing staff and for the compliance function, and enhance the training where necessary to reflect best practice, taking into account in particular the types of higher-risk business that staff are liable to encounter. All banks should focus training, *inter alia*, on the importance of creating and regularly updating economic and business profiles of customers, ongoing monitoring, and the identification of

suspicion (particularly in the international business context). [*Medium priority – 12 months and ongoing*]

***Response of the authorities:***

Measures taken by the Central Bank:

- A) Article 58 of the AML Law requires persons carrying on financial or other business to establish adequate and appropriate systems and procedures to make their employees aware with regard to:
- (i) systems and procedures for the prevention of money laundering and terrorist financing,
  - (ii) the AML Law,
  - (iii) the Directives issued by the competent Supervisory Authority,
  - (iv) the European Union's Directives with regard the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

Furthermore, Article 58(e) of the AML Law requires the regular training of staff to recognise and handle transactions and activities suspected to be related with money laundering or terrorist financing activities.

In addition section 8 of the CBC Directive requires of the Money Laundering Compliance Officer, in cooperation with other competent units of the credit institution (i.e. the Personnel and Training departments etc), to prepare and implement, on an annual basis, an education and training programme for the staff as required by the AML Law and the CBC Directive. It is emphasised that the training programme should have a different structure for new staff, customer service staff, compliance staff, staff moving from one department to another or staff dealing with the attraction of new customers. The Money Laundering Compliance Officer is required to evaluate the adequacy of the seminars and the training provided to the staff and to maintain detailed records regarding the seminars/programmes carried out.

- B) Please refer to CBC's response to Question 1 above. Points B to E are relevant.
- C) On 18 March 2014, the CBC organised a seminar for the financial sector with the assistance of an external financial expert, to address issues such as EDD, the construction of business profile, monitoring of transactions, and reliance on business introducers. Moreover, the CBC in collaboration with the Cypriot FIU (MOKAS) will deliver a seminar to the compliance officers of all credit institutions on 28 March 2014.

Measures taken by the credit institutions:

According to the Money Laundering Compliance Officers' confirmations the majority of credit institutions organised in house seminars to their staff covering, inter-alia, the weaknesses identified during the two special assessments. Moreover, the majority of them confirmed that they and/or the compliance staff attended seminars in Cyprus or abroad.

In addition, all credit institutions informed us that they started delivering seminars to their staff in relation to the new legal and regulatory requirements and on the latest developments in AML/CFT

matters.

In this connection, credit institutions submitted to the CBC their training programmes for 2013 and 2014. It should be noted that detailed information on training courses/seminars attended by the Money Laundering Compliance Officer, his/her assistants and the staff, during 2013, were also included in the Money Laundering Compliance Officer's Annual Report.

*The following supplemental recommendations are included as they are directly relevant to placing the banks in a position to implement effective CDD measures:*

10. The competent authorities should amend their directives to explain the new provisions on tax crimes (including tax evasion) as predicate offences to ML. Careful guidance needs to be given on the assessment of risk in this context, including on business structures likely to be used for tax evasion purposes. Guidance should also be given on the identification of suspicious activities related to domestic and foreign tax evasion [*Medium priority – 6-12 months*]

***Response of the authorities:***

**Measures taken by the authorities:**

- Please refer to CBC's response to Question 1 above. Points B to D are relevant.

In addition to the above it should be noted that all supervisory authorities from the financial and non-financial sector issued Guidelines to their supervisory entities, explaining the new provisions on tax crimes as predicate offences to money laundering. It should be noted that the said Guidelines issued by the other supervisory authorities are along the same lines with the one issued by the CBC.

11. The accumulation of high risks has implications for the CBC's supervisory work, in particular in relation to those banks most exposed to such risks. The CBC should take these considerations into account and incorporate them appropriately when updating the CBC Directive. [*Medium priority – 12 months*]

***Response of the authorities:***

**Measures taken by the Central Bank:**

- The CBC has strengthened its resources, especially within the supervision department. A separate AML/CFT Unit was set up in May 2013 to undertake AML/CFT supervision of credit institutions. The AML/CFT unit consists of five persons plus the Head of the Unit. According to the restructuring plan, the unit will be staffed with two additional experts, fully dedicated to AML/CFT issues by the end of 2014.
- The CBC, with the technical assistance of the IMF, designed and developed a risk-based assessment

methodology and tools for offsite and onsite supervision.

- In relation to onsite supervision, during 2014, the CBC has planned to implement a comprehensive inspection program covering 11 credit institutions, utilising the aforementioned methodology. It should be noted that the said inspections will be carried out with the assistance of external auditors who are being selected via a tender procedure. During March 2014, the CBC has carried out the first onsite examination where the onsite tools developed with the technical assistance of the IMF have been tested.
- In relation to offsite supervision, the CBC designed, developed, and adopted, a risk assessment methodology and tool(s) that provides for:
  - a comprehensive analysis of inherent ML/TF risks within the following risk factors: customers, products & services, geographic locations/areas, and delivery channels;
  - an assessment of the internal control environment that should be in place to mitigate and/or control the inherent ML/TF risks, as identified and measured;
  - institutional risk profiles;
  - specific AML/CFT supervisory strategies (adapted to institutional risk profiles)

It should be noted that this process is closely monitored as part of the quarterly Troika review.

12. The Company Registry should be provided with the staff and other resources necessary to remove the backlog of amendments to company registration documents and to follow up unsubmitted annual returns and financial statements. [*Medium priority – 12 months*]

***Response of the authorities:***

**Measures taken by the Company Registry:**

On the initiative of the Cyprus' authorities, a full third party assessment of the Department of the Registrar of Companies and Official Receiver was initiated in September 2013 and completed in December 2013, by the UK National School of Government International, the Companies House and the Insolvency Service. The scope of the assessment was to assess, according to best practice, the processes and methods of the Department, its information and technology systems, its staffing and organisation and also address the issue of the backlog and unsubmitted annual returns and financial statements. Based on this work and subsequent relevant actions, almost all backlog has been cleared, while at the same time the authorities will finalise and adopt by the end of March 2014 an action plan aiming to restructure the Department according to best international practice with specific timeframes for its implementation.

It should be noted that this process is closely monitored as part of the quarterly Troika review.

13. The supervisory regime for ASPs should be brought fully into effect as quickly as possible and the AML/CFT supervision of lawyers and accountants, in their role as business introducers, should be further strengthened. [*Medium priority – 12 months and ongoing*]

***Response of the authorities:***

**Measures taken by the authorities:**

The supervisory authorities have enhanced their AML monitoring capacity by restructuring the supervisory department (Cyprus Securities and Exchange Commission), increasing the human resources (Cyprus Bar Association and Institute of Certified Public Accountants of Cyprus). At the same time, all supervisors are working with specialised consultants towards the development of risk-based supervisory tools for offsite and onsite surveillance.

**CYSEC**

The supervisory regime for ASPs has come into full effect. CySEC is examining on an ongoing basis applications for authorisation – the application deadline for companies already offering those services was in July 2013. CySEC has already started carrying out onsite inspections of ASPs that have already received their CySEC authorisation. CySEC has reinforced its investigation team for the onsite inspections. A special section on the CySEC's website addresses frequently asked questions, which help interested parties in the application of the ASP Law. In the same context CySEC announcements are published on a regular basis to give guidelines on the Law or codify a procedure that needs to be followed. CySEC has been the guest speaker in seminars and meetings presenting and explaining the said Law. Competent Authorities have enhanced and strengthened their cooperation and are regularly meeting or communicating regarding common supervision principles and exchange of information, knowledge and knowhow. Following the enactment of the ASP Law, business introducers - for banking purposes - can only be lawyers and accountants regulated by their respective Competent Authority or an ASP regulated by CySEC.

**ICPAC**

The Institute of Certified Public Accountants for Cyprus (ICPAC) in its capacity as a competent authority under the AML Law for the supervision of the administrative service providers has engaged in the following actions:

- (a) The AML Directive to the members of the Institute has been revised in September 2013 to accommodate all the latest relevant updates
- (b) The Regulations of the Institute were also revised to take into account new provisions regarding the monitoring, supervision and disciplinary proceedings of the members
- (c) ICPAC has outsourced the onsite inspection to its members to ACCA UK, which performs the AML audits on its behalf. The procedure and the staffing of this function has been enhanced.
- (d) ICPAC set up a specific committee to handle the everyday affairs and business issues of its members that provide administrative services.
- (e) After the passing of the ASP Law, ICPAC issues separate practising certificates to individual and firms for the provision of administrative services. Each member who wishes to provide such services or act as a business introducer must hold such a certificate.
- (f) A register of the members and of the firms providing administrative services is kept by the

Institute, which is also available on its website.

(g) A number of training activities have been carried out in 2013 and scheduled for 2014 regarding AML and the provisions of administrative services. In 2013, the new ASP law, the revised AML Directive, the AML Law and aspects of suspicious transactions were presented in these seminars; whilst in 2014 similar updated activities will be pursued, for the benefit of the members.

### **CBA**

With regards to the supervision of all entities that fall within the CBA's supervision, the CBA's AML supervision department has been strengthened and now consists of 3 persons. The CBA will examine the possibility to hire more staff in case the department needs further support. A separate registry for ASPs regulated by the CBA has been established and is posted on the CBA's website and a new Directive has been approved which regulates the supervision of ASPs. In addition, a trust registry has also been established with respect to trusts governed by Cyprus Law and where one of the trustees is supervised by the CBA. As regards training, a seminar on AML matters has been presented to the trainee advocates in February 2014 and a seminar has also been scheduled for May 2014 in cooperation with MOKAS, CySEC and other organisations. The CBA has revised its AML Directive.

A detailed action plan, duly adhered to by the authorities, is part of the Memorandum of Understanding on Specific Economic Policy Conditionality for Cyprus (Annex 2 - [http://www.mof.gov.cy/mof/mof.nsf/MoU\\_Final\\_approved\\_13913.pdf](http://www.mof.gov.cy/mof/mof.nsf/MoU_Final_approved_13913.pdf)) in which specific enhancements to the AML framework are stipulated. In this specific action plan, various measures are stipulated with deadlines for implementation. These measures include amongst other, a) the development of a risk based approach in supervision by all competent authorities (on-site and off-site), b) the reviewing by the Central Bank of Cyprus of the framework relating to the use of introducers/third parties c) the on-going quarterly monitoring of the implementation of adequate AML supervision by the competent supervisory authorities. Subsequently, this process is closely monitored as part of the quarterly Troika review.