

**MONEYVAL**

**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**

15 September 2014

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# CYPRUS

## Written Report

### Submitted to MONEYVAL

#### **1. *Written Analysis of Progress Made in Respect of the Special Assessment of the Effectiveness of Customer Due Diligence Measures in the Banking Sector in Cyprus***

##### **1.1 *Introduction***

1. At the 43<sup>rd</sup> Plenary, on 10 December 2013, the Plenary adopted the first report on Cyprus's progress in respect of the implementation of the recommendations in the report 'Special Assessment of the Effectiveness of Customer Due Diligence Measures in the Banking Sector in Cyprus' dated 24 April 2013 (the Special Assessment Report)<sup>1</sup>. At the time, 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 report at the 44<sup>th</sup> Plenary and a fuller report at the 45<sup>th</sup> Plenary.
2. The interim report was presented and adopted at the 44<sup>th</sup> Plenary on 31 March 2014. The Plenary, after having considered the analysis of the Secretariat, determined that sufficient progress had been made by the authorities in the period since the 43<sup>rd</sup> Plenary to ensure that the banks had implemented the recommendations made in the special assessment report. It was reiterated that Cyprus should provide a fuller report on the progress made at the 45<sup>th</sup> plenary. In particular, Cyprus was requested to provide information on the findings of the on-site inspections which were due to be carried out by the Central Bank of Cyprus (CBC) and provide further updates on the ongoing developments within the CBC, the Cyprus Securities and Exchange Commission (CySEC)<sup>2</sup>, the Cypriot Bar Association (CBA)<sup>3</sup>, the Institute of Certified Public Accountants of Cyprus (ICPAC)<sup>4</sup> and the Company Registry.
3. The purpose of this paper is to introduce Cyprus's second full report back to the Plenary concerning the progress made since the 44<sup>th</sup> Plenary. It contains a written analysis by the Secretariat focussing on the additional measures adopted by the Cypriot authorities and banking sector since April 2014. More detailed information may be found in the report submitted by Cyprus on 14 August 2014 and updated on 8 September 2014 (Section 2). The analysis is also based on additional information provided by the Cypriot authorities on 9 September 2014 at the request of the Secretariat. To a large extent, the analysis does not refer to the measures which were implemented by the Cypriot authorities before the 44<sup>th</sup> Plenary, since their analysis is already contained within the report adopted at the 44<sup>th</sup> Plenary<sup>5</sup>. Reference to those measures, the CBC Directive (amended on 4 December 2013) and the CBC Guidance (issued on 3 February 2014) is only made in this report where it is necessary for a better understanding of the measures implemented after April 2014.

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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)

<sup>2</sup> AML/CFT supervisor for Administrative Service Providers (TCSPs)

<sup>3</sup> AML/CFT supervisor for lawyers

<sup>4</sup> AML/CFT supervisor for accountants

<sup>5</sup> [http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/Cyprus%20special%20assessment/MONEYVAL\(2014\)9\\_ANALYSIS.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/Cyprus%20special%20assessment/MONEYVAL(2014)9_ANALYSIS.pdf)

4. As mentioned in the interim report, in March 2014 the CBC conducted an information gathering exercise to confirm whether the recommendations made in the Special Assessment Report had been implemented by banks. This information, together with information obtained from annual reports and risk-assessment reports submitted by all banks on 28 February 2014 (as required by the CBC Directive), was analysed by the CBC to understand the ML/FT risk inherent in each bank and assess the internal controls in place to mitigate and control the risks. This analysis also served as a basis for establishing the institutional risk profile of each bank. The Secretariat was informed that this process has now been completed. The outcome of the analysis confirmed the expectations of the CBC and did not give rise to any particular areas of concern which required a significant alteration to the CBC's supervisory priorities.
5. Reference was also made by the CBC to the development of a supervisory risk assessment methodology<sup>6</sup>, which among other things, is intended to assist the CBC in articulating specific AML/CFT supervisory strategies adapted to institutional risk profiles. Based on this methodology, the CBC's priority is to conduct a number of comprehensive on-site examinations over a period of time. In total, the CBC intends to conduct comprehensive on-site examinations at eleven banks in 2014.
6. Since the 44<sup>th</sup> plenary, the CBC has completed comprehensive examinations at five banks (including the on-site examination initiated in March 2014, which was referred to in the interim report) and a further examination of one bank is in the process of being finalised<sup>7</sup>. During these examinations the CBC utilised the on-site tools developed with the assistance of the IMF. Five of the banks that were subject to the examination had been visited by the team which conducted the special assessment. While it was noted that measures to strengthen and improve AML/CFT programmes had been implemented, some weaknesses were identified. The CBC is still in the process of assessing the seriousness of these findings internally and a determination on whether sanctions are to be imposed has not been taken yet<sup>8</sup>.
7. Pending a comprehensive examination, in June 2014 the CBC conducted a short focussed visit (1 to 2 days each) at nine banks. These visits were carried out according to a methodology which was formulated specifically for this exercise with the purpose of ascertaining whether the recommendations of the Special Assessment Report were being implemented. The banks visited by the special assessment team were all included in the list. Some of the banks visited in June are expected to receive a comprehensive examination in 2014. Overall, the banks were found to have been implementing the recommendations made in the Special Assessment Report. Weaknesses were identified in some areas and guidance for improvement was given to the banks concerned. No sanctions were imposed since the purpose of these visits was mainly to exercise oversight over the implementation of the recommendations.
8. The fifteen banks (out of a total of thirty two banks in Cyprus) which were selected by the CBC for closer scrutiny (either by receiving a comprehensive examination or a focussed visit) together comprised over 85% in total assets and 68% in deposits of the entire banking sector. The selection was made on the basis of the risk-based off-site tool recently implemented by the CBC.
9. Further developments were reported in relation to the setting up a register of 'blacklisted' third party introducers. The questionnaire and score-card (referred to in the interim report) developed by the CBC and the Association of Cypriot Banks (ACB) to assist banks in assessing the suitability of third party introducers before the establishment and in the course of a relationship

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<sup>6</sup> Further details on the risk-based methodology may be found in paragraphs 6 of the report adopted at the 43<sup>rd</sup> plenary and paragraph 4 of the interim report adopted at the 44<sup>th</sup> plenary.

<sup>7</sup> A comprehensive examination of a seventh bank started on 8 September 2014.

<sup>8</sup> The specific findings could not be disclosed as the process is still ongoing and CBC management has not yet taken a final decision on the findings and any possible sanctions.

were completed. These were distributed to all banks by the ACB at the end of May 2014 and by the CBC in July 2014. The CBC requested all banks to reassess existing relationships with third party introducers in accordance with the criteria set out in score-card. The process is expected to be finalised by the end of November 2014. Additional information is provided under the analysis of recommendation 3 below.

10. After the last plenary, training seminars continued to be held in Cyprus focussing on the findings and recommendations made in the Special Assessment Report and the Deloitte report. On 19 May 2014, the CBC in cooperation with the Cyprus Institute of Financial Services organised a seminar with a particular focus on the treatment of politically exposed persons and tax crime as a predicate offence for ML purposes, as well as enhanced due diligence for high risk customers, transaction monitoring and risk indicators. The seminar also included a practical component on the application of CDD measures. The seminar was mainly attended by compliance departments of banks. Officers from business and internal audit units also attended.
11. The Cypriot authorities also reported various developments regarding the ongoing restructuring process within the CBC, the ICPAC, the CBA the CySEC and the Company Registry. The ICPAC, the CBA and the CySEC continued developing and implementing their supervisory programmes with respect to Administrative Service Providers<sup>9</sup> (ASPs) and lawyers and accountants providing administrative services. Further information on these measures is found under the analysis of recommendations 11 to 13.
12. This paper provides a review and analysis of the measures taken by the Cypriot authorities and the banking sector on the basis of the material provided (Section 1.2) together with a summary of the main conclusions of this review (Section 1.3). This paper should be read in conjunction with the progress report submitted by the Cypriot authorities (Section 2) and the written analysis of the Secretariat contained in the reports adopted at the 43<sup>rd</sup> and 44<sup>th</sup> Plenary meetings. When assessing the progress made, effectiveness was taken into account to the extent possible in a paper-based desk review.

## **1.2 Detailed review of measures taken by Cyprus in relation to the Special Assessment**

### **Recommendation 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.**

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<sup>9</sup> Administrative Service Providers conduct the activities referred to under the definition of Trust and Company Service Providers in Recommendation 22 of the 2012 FATF Recommendations.

***[High priority – 6 months and ongoing]***

13. At the time of the special assessment, the assessors noted that although all banks interviewed had Board-approved AML/CFT policy statements (which reflected the high-risk business categories specified in the CBC Directive), none of the banks could point to the existence of any overall AML/CFT risk assessment conducted at the level of and specific to the individual bank. It appeared that some banks mechanically addressed the points listed in the CBC Directive rather than conducting their own risk analysis as required.
14. The Cypriot authorities indicated that following the assessment, the CBC Directive was amended<sup>10</sup> to address this deficiency. Paragraph 9 of the Directive now clearly states that in determining the AML/CFT policy of each bank, due consideration should be given to complex business structures, and the risks that such entities may accumulate, in determining the bank's risk appetite and customer acceptance policy and required enhanced measures to effectively monitor and mitigate such risks. The policy should also determine the conditions and related procedures under which a customer relationship should be terminated. Additionally, a risk assessment report is to be drawn up annually and submitted to the board of directors through senior management for consideration and approval. A copy of the report is to be sent to the CBC together with the Money Laundering Compliance Officer's (MLCO) annual report.
15. The CBC reported that all banks examined were found to have an overall AML/CFT policy in place which recognised the overarching risk posed by the accumulation of risks in complex business and set out enhanced measures to mitigate the risks, including rejecting and terminating a business relationship. The CBC indicated that the adequacy of the policies was assessed in light of the nature and size of business of each bank under examination. The enhanced measures being implemented by banks to mitigate overarching risk were found to include, but are not limited to, the following:
  - Data and information collected so as to be satisfied that a customer's use of complex business structures and/or the use of trust and private investment vehicles have a genuine, legitimate and financial/commercial purpose;
  - Introduction of scorecards;
  - Visit the customer at their place of residence;
  - Meeting(s) with the ultimate beneficial owner;
  - Due Diligence Reports by external investigation firms;
  - Approval by the Senior Management and obtaining the MLCO's opinion;
  - Taking additional measures to verify customers' identity;
  - Ascertaining the source of funds and source of wealth;
  - References or other sources to corroborate reputation information, where available;
  - Close monitoring of transactions and obtaining supporting documents for all transactions;
  - Periodic review of business relationships and updating of customers' file annually or earlier where needed.
16. The CBC also confirmed that business relationships have been rejected or terminated on the basis of risk posed by certain customers.

**Recommendation 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**

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<sup>10</sup> On 4 December 2013

**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]**

17. During the on-site visit the assessors were persuaded that banks identify and verify the identity of beneficial owners across a range of corporate structures and arrangements. However, considering the risk profile of international banking business conducted in/through Cyprus, the assessors were of the opinion that, even with their best efforts, the banks may struggle to be certain that the claimed beneficial owner is, and continues to be during the business relationship, truly the natural person who is the owner or controller. Hence, a recommendation was made to the banks to establish direct contact with the ultimate beneficial owner in those cases involving an accumulation of risks.
18. With a view to ensuring application of this measure, the CBC Directive now explicitly requires banks to establish direct contact with the natural person who ultimately owns or exercises control over a customer in cases where there is an accumulation of high risks, particularly emanating from the use of complex structures combined with introduced business.
19. The CBC indicated that the AML/CFT policies and procedures of the banks examined provide for the circumstances under which direct contact should be established by the bank with the ultimate beneficial owner. During the on-site inspections, documentary evidence was produced by banks demonstrating that direct contact had been established with beneficial owners in line with the banks' policies and procedures. In many of the cases reviewed by the CBC, memos or minutes of meetings held by banks with the ultimate beneficial owner were found in customer files.

### **Recommendation 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 banks, 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, banks should always consider terminating business relations with the introducer. [High priority – 6 months and ongoing]**

20. In the special assessment report, the assessment team acknowledged that relying on business introducers for CDD purposes is inevitable in banking systems that attract international business. Nevertheless, it was noted with some concern that one of the categories of introducers (administrative service providers) was not yet supervised (at the time of the visit) and the supervision of the other categories of introducers (lawyers and accountants) needed further strengthening<sup>11</sup>. Furthermore, in some cases the introducers' procedures were not being reviewed subsequent to the assessment conducted at the initial acceptance. Hence, a recommendation was made to implement stricter controls on the use of business introducers.
21. In response to this recommendation, additional requirements were added in paragraph 85 of the revised CBC Directive which already provided for some measures to be implemented when using business introducers. The additional requirements include obtaining a copy of the policy and procedures of the business introducer, collecting information on the MLCO of the business introducer, reviewing relationships with business introducers on a yearly basis and keeping a register on business introducers, which is to be forwarded to the CBC along with the MLCO's annual report.
22. The CBC confirmed that the banks visited have all updated their policies and procedures in line with the additional requirements set out under the CBC Directive. The Secretariat was informed

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<sup>11</sup> These concerns have now been addressed as indicated clearly under Recommendation 13 of this report.



that 13 banks do not rely on third party introducers for the fulfilment of their customer due diligence requirements.

23. As mentioned in the introduction, further concrete steps have been undertaken to ensure that a robust mechanism is in place for the assessment of the suitability of third party introducers by banks. The CBC confirmed that the examined banks are in the process of re-assessing existing relationships with third party introducers against the new requirements under the CBC Directive and in accordance with the criteria set out in the score-card developed by the CBC and ACB. All banks have set out a plan for the completion of this exercise which is expected to be finalised by November 2014.
24. Where the banks determine that a third party introducer does not fulfil the criteria, the bank is required to reject the relationship or terminate the relationship if it has already been established. Additionally, details of the third party are required to be submitted to the CBC. The CBC will then include the name of the person in a registry which will be accessible to all the banks and other AML/CFT supervisory authorities. Banks will be required to consult the registry to ensure that introducers with whom they have a business relationship are not listed in the registry. A directive governing the functioning of the registry is expected to be issued by the CBC once listing criteria are determined following consultation with banks. The consultation is still in progress. However, work on the development of the IT infrastructure for the registry has already been started. The testing of the system is expected to begin in September 2014.

#### **Recommendation 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]***

25. The assessors noted that the compliance function was not always directly involved in the acceptance of higher risk customers. The assessment team considered it necessary to recommend that the expertise of the compliance function be brought to bear in all high risk client acceptance decisions. The section in the CBC Directive dealing with high risk customers was accordingly revised. Banks are now required to inform the MLCO of prospective high risk customers and the MLCO will act as an advisor before the business relationship is established. Additionally, the approval of the MLCO is required to reclassify a high risk customer to low risk.
26. The policies and procedures of all banks examined were all found to have been updated in accordance with the relevant parts of the CBC Directive. The procedures now require the MLCO to be informed of all prospective high risk customers before a business relationship is established. In some banks, the involvement of the MLCO is required for the establishment of every business relationship, irrespective of the level of risk posed.
27. The CBC requested a list of all customers with whom banks established a business relationship in 2014 and through a random sampling procedure it was confirmed that the MLCO was involved in the customer on-boarding procedure of all high risk customers. It was also noted that there were instances where, on the advice of the MLCO, a prospective customer was rejected by the bank.

#### **Recommendation 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]***

28. In the special assessment report it was noted that the banks' automated ongoing monitoring systems generated a high daily volume of alerts requiring attention due to the significant number of high risk customers. Questions arose about the depth of necessary investigation into individual alerts. Thus, a recommendation was made to direct more resources to the monitoring of high risk business relationships.
29. The CBC Guidance sets out in some detail measures to be undertaken with respect to higher risk customers. It explains how real time screening is to be conducted and alerts generated by automated monitoring systems are to be treated. The guidance also draws banks' attention to the fact that human and technical resources are an essential component of an effective ongoing monitoring mechanism.
30. The CBC indicated that, through the information-gathering exercise conducted in March 2014, it was established that banks had reviewed the adequacy of resources dedicated to compliance and transactions monitoring units, both in terms of staff and IT, and action had been taken where it was deemed necessary. This was confirmed by the CBC during the on-site examinations, where it was noted that ten banks had increased the staff complement of their compliance unit. One bank was in the process of recruiting additional staff. The other four banks had not identified the need to recruit additional staff. In several banks, training was specifically provided on ongoing monitoring and the handling of alerts.

#### **Recommendation 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]**

31. The CBC referred to a number of amendments which were brought into force in 2012 to align the requirements on politically exposed persons (PEPs) with the FATF standards. Furthermore, the CBC Guidance dedicates a whole section to the treatment of PEPs, in addition to explain the requirements in the law and the CBC Directive. The guidance provides that banks' systems should filter, on a regular basis and not less frequently than once a month, all customers to determine whether they have become PEPs after the establishment of the business relationship. According to the CBC, 11 banks already have such a system in place, while the other banks are in the process of implementing this requirement. The guidance also explains how the source of wealth of a PEP is to be ascertained, providing examples of the type of sources to be consulted. A list of sources is provided to assist banks in determining whether a customer is a family member or a close associate of a PEP.
32. The on-site examinations conducted by the CBC revealed that banks' procedures are in line with the requirements set out in the law, the Directive and the guidance. It was noted that in order to ascertain the source of wealth banks consult, among others, publicly-available property registers and/or land registers, company registers, other sources of information about legal and beneficial ownership, financial statements, tax declarations, supporting documentation and past transactions. In order to determine whether a customer or beneficial owner is a family member or close association of a PEP, banks use more than one source of information, which include, in addition to commercial databases, customer self-declarations, internet and media searches, in-house databases and information sharing within financial groups and establish contact with counterparties in the country where the customer resides. Two banks were found not to have finalised the implementation of an IT system to screen customers for PEP-requirement purposes. Both banks initiated procedures to introduce such a system but due to technical reasons the project has not

been finalised. It is anticipated that technical issues will be resolved soon. The CBC will continue monitoring the implementation of the IT system by these two banks.

### **Recommendation 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]**

33. During the visit, the assessment team was satisfied with the level of knowledge by banks of the requirement to understand the purpose of the business relationship and establish the economic and business profile of high risk customers. However, several banks had indicated that during internal audit work and CBC inspections shortcomings were identified in this respect. A recommendation was therefore made by the assessment team to draw attention to this requirement.
34. In addition to the requirements under the Law and the CBC Directive, the CBC guidance provides further explanations on the measures to be taken to identify the purpose of the business relationship and the economic and business profile of high risk customers to ensure that information is detailed, meaningful, accurate and regularly updated.
35. The examinations conducted by the CBC indicated that this requirement is to a large extent implemented by the banks visited. This was established on the basis of sample testing carried out by the CBC. Recommendations were made by the CBC in the few instances where minor weaknesses were identified. The information being requested by banks to establish the purpose of the business relationship includes the following:
  - purpose and reason for opening the account or the provision of banking services;
  - the anticipated level and nature of the activity that is to be undertaken through the business relationship;
  - the initial and expected source(s) of funds;
  - the source(s) of wealth (particularly for high risk customers);
  - annual income;
  - expected destination of outgoing funds;
  - clear and detailed description of the main business/professional activities/operations;
  - occupation/ professional experience of the customer;
  - location of customer;
  - With regard to legal persons, banks obtain the company's group structure including information (e.g. main activities and/or financial information) on companies (e.g. parent company, subsidiaries and associate companies) who have common ownership.

### **Recommendation 8**

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

36. Several banks indicated that projects to update CDD documentation for existing customers were still underway. In light of the fact that the CDD requirements had been last amended in 2007/2008, the banks were urged to conclude this undertaking without any further delay. The CBC advised that following the special assessment many banks have reviewed their customer base to ensure that any outstanding CDD information was updated.
37. According to the CBC the banks that have been subject to an examination have instituted measures to ensure that CDD measures are applied to existing customers. As an example, reference was made to three banks which established a dedicated team within the compliance unit to review and update CDD data.

### **Recommendation 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]**

38. The assessment team found the amount of training devoted to training of client-facing staff to be insufficient and little specialist training had been provided to compliance function staff. The CBC Guidance reiterates the requirement to conduct regular employee training especially in relation to CDD requirements and the identification and reporting of suspicious activities and transactions. Attention is drawn to the fact that compliance staff should receive specialised training. Guidance is provided on the training methods to be adopted.
39. In the course of the examinations carried out, the CBC inspected the training programmes provided by the banks. In particular, the CBC sought to determine whether training programmes included information on regulatory requirements, the bank's internal AML policies, procedures and processes, as well as ML/FT risk awareness and the identification and handling of suspicious transactions. The comprehensiveness of the training programme was evaluated in light of the specific risks posed by the banks' business lines, accuracy of material, the training schedule and attendance tracking. The CBC also sought to determine whether the training was tailored specifically to the needs of the staff being trained (e.g. new staff, compliance units, business units, etc).

### **Recommendation 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]**

40. All the supervisory authorities have issued separate guidance explaining the new provisions on tax crimes as predicate offences to ML. This review considers the guidance provided by the authorities to be broadly adequate. The authorities have also indicated that all the training seminars provided since the Special Assessment referred to in the reports adopted at the 43<sup>rd</sup> and 44<sup>th</sup> Plenary meetings and thereafter have contained a component dealing with this issue. In particular, MOKAS in collaboration with the other supervisory authorities, provided training on STR reporting requirements, including the requirement to report issues relating to tax crimes, to banks, lawyers, accountants and ASPs.
41. This review was informed that MOKAS has received a number of STRs on suspicions of ML relating to tax offences, including tax evasion. Due to the sensitivity of this matter no further information may be disclosed in this report.

### **Recommendation 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]**

42. A separate AML/CFT Unit was set up within the supervision department of the CBC in May 2013 to undertake AML/CFT supervision of banks. The staff complement of the unit, which initially consisted of two officers, has now been increased to six, in addition to the Head of the unit. At least one additional staff will be recruited by the end of 2014. Both off-site and on-site AML/CFT supervision are conducted according to risk-based tools developed by the AML/CFT unit and the prudential supervision unit of the CBC with the assistance of the IMF. All the officers of the AML/CFT unit and the prudential supervision unit received training on the use of the risk-based tools. As already mentioned in the introduction, the CBC intends to conduct comprehensive examinations at eleven banks. The capacity and expertise of the CBC's AML/CFT Unit is completed by external auditors. The AML/CFT supervisory process is under close monitoring of the Troika institutions.

### **Recommendation 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]**

43. In previous reports reference was made to the third party assessment initiated and completed in 2013 to assess the processes and working methods of the Company Registry, its information and technology systems and its staffing and organisation and to clear the backlog of unsubmitted annual returns and financial statements by registered companies. The authorities indicated that the backlog has now almost been completely cleared. On 30 April 2014 a detailed action plan was approved by the Council of Ministers to restructure the registry. A project team was set up to implement the action plan. Measures have been taken to ensure that company data is updated and available online. As from July 2014 basic information on legal person is available free of charge on the registry's website. The Registrar has given written notice to all legal persons to comply with their filing obligations by the end of June 2014 under pain of striking off/removal from the register in accordance with Company Law. Further information is provided in the report submitted by Cyprus.

### **Recommendation 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]**

44. The supervisory regime for ASPs has been brought fully into effect. CySEC has started implementing its on-site supervisory programme and continues to process applications for authorisation. The CBA and the ICPAC have also continued monitoring those members who carry out administrative services.

### **CySEC**

45. CySEC conducted 9 AML/CFT specific on-site visits in 2013 and 4 AML/CFT specific on-site visits in 2014 (as at end of August). The major weaknesses/deficiencies that have been identified by CYSEC further to the AML/CFT specific on-site visits were the following:
- Failure to obtain all required documents for the determination of a client's identity and the performance of client due diligence.
  - Failure to obtain all the relevant data/information required for the construction of a client's economic profile.
  - Failure to execute the appropriate client categorization policy as per the client acceptance policy and the provisions of the Law and the Directive.

- Insufficient procedures for the determination and verification of a client's identity and the performance of client due diligence on high-risk clients, particularly politically exposed persons.
- Insufficient or infrequent monitoring of clients' accounts and transactions.
- Insufficient procedures for the management and implementation of financial sanctions imposed against various persons by the United Nations and the European Commission.

46. The supervisory actions that have been taken by CYSEC in respect to breaches identified were:

- administrative fines on 5 supervised entities, ranging from €5,000 to €18,000;
- written warnings to 7 supervised entities with a three month time frame to take measures in order to remedy the situation;
- a Circular was issued to the supervised entities which, amongst others, highlighted the findings of the AML/CFT specific on-site visits conducted;
- An administrative fine (€12,000) to one supervised entity was the only measure taken by CySEC before April 2014. The rest abovementioned measures were taken by CYSEC after April 2014. The result of one AML/CFT specific on-site visit to a supervised entity is still pending for a decision by the Council of CySEC.

47. CySEC is also implementing an off-site supervision programme which consists of:

- An assessment of the Monthly Prevention Statement for the Prevention Of Money Laundering and Terrorist Financing submitted every by the supervised entities. The said Monthly Prevention Statement includes information on clients' cash deposits over €10,000 and the number of reports submitted to the supervised entities AML Compliance Officer and to reports submitted to MOKAS.
- Assessment of the Annual Report in relation to the prevention of ML/FT that must be prepared by the AML Compliance Officer and the relevant minutes of the board of directors of the supervised entities.
- CySEC is in the process of developing an advanced electronic risk-based tool, for determining the overall risk of supervised entities (including the specific risk on AML/CFT) and conducting onsite inspections. The said risk based tool will be completed at the beginning of 2015.

### **CBA**

48. 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 three inspectors. The inspectors have been trained by a firm specialising in compliance services and have registered to undertake the ACAMS Certification for AML and Financial Crime Knowledge. The Head of the Department has completed and obtained the International Compliance Diploma in Anti- Money Laundering by the International Compliance Association (ICA).

49. A detailed action plan, duly adhered to by the authorities, is part of the Memorandum of Understanding on Specific Economic Policy Conditionality for Cyprus 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 review 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.

50. The CBA has assigned the development and implementation of the risk-based tools to a specialised private company. The offsite risk assessment tool and methodology have been developed and the pilot was launched. A questionnaire was developed and sent to a selected group of members. Their response was evaluated and used in the assignment of risk categories. The questionnaire was amended and enhanced accordingly, taking into consideration the responses obtained through the pilot project. Furthermore, the questionnaire was designed to work as a web-based function and was made available for completion by all the members and the data received was processed in order to risk categorise all members.
51. Twenty on-site inspections were conducted 2014, out of which nine were carried out using the newly developed methodology, on a pilot basis. The aim of the pilot audits is to assess, enhance and amend the on-site methodology accordingly. The pilot will be completed with two more audits and the on-site audit methodology will be re-assessed and finalised. Based on the findings of the pilot on-site audits, a schedule for the next six months will be prepared. No supervisory action has been taken following the pilot audits. The entire process is in accordance with and follows the plan as agreed with TROIKA in the memorandum.

### **ICPAC**

52. As mentioned in previous reports, ICPAC has outsourced AML/CFT supervision to the Association of Chartered Certified Accountants of UK (ACCA). Currently, the ACCA has assigned three (3) qualified senior practice reviewers in Cyprus on a permanent basis. They are supported by their team in the UK which consists of at least another 12 reviewers, who are available to visit firms in Cyprus where required. The ACCA has stringent internal control procedures to ensure that before any report is issued to a firm, it is reviewed and agreed upon by at least another team member. Furthermore, any complex or difficult situations are reviewed and assessed by an appropriate expert at the ACCA and approved by the Practice Monitoring Department Director.
53. During 2013 185 visits were conducted. A similar number of visits is budgeted for 2014. No significant breaches were identified for AML/CFT purposes. However, areas where improvement is necessary were highlighted and communicated to the firms.
54. With the assistance of external consultants, an off-site risk based tool has been designed, tested and implemented in order to gather data via an electronic questionnaire sent to all licensed firms. The information collected was then processed and each firm was categorised in one of the three risk categories, namely high, medium and low risk. Thus, all firms licensed under ICPAC have been assessed in 2014 and have been risk graded. This off-site risk based tool will be repeated annually and its results will provide the basis for the selection of the sample for the on-site inspections.
55. According to the AML Action Plan, ICPAC should by the end of the third quarter of 2014 have in place a separate on-site visit tool, specifically designed for AML. The design of this tool has been assigned to the ACCA for development and testing, and it will be ready for implementation by the end of September 2014. ACCA has developed a new methodology that encompasses the relevant legislation, the regulations and the directive of ICPAC for AML/CFT purposes and with this tool, all firms licensed by ICPAC, irrespective of the services they offer, will undergo this on-site AML/CFT review. The Council of ICPAC has decided that the on-site inspection will again be outsourced to the ACCA.

56. The Institute will operate very soon a Regulatory Committee, where all matters arising from the on-site visit will be referred to for further action. This committee is an independent body from the Council and management of the Institute and its decisions are binding.
57. ICPAC has employed an additional member of staff in order to facilitate its monitoring role and liaise with the ACCA, MOKAS and the Public Oversight Board for auditors. This new person is expected to be hired before the end of the year, thus further enhancing the monitoring team.
58. ICPAC is committed to the AML Action Plan given by Troika and is assessed every three months for compliance. All actions taken so far resulted in the enhancement of the procedures followed and further improvement of the existing system. ICPAC has issued circulars and specific guidance on AML/CFT issues. At the same time, significant training activity has been planned in order to cover all major aspects regarding AML/CFT issues.

### **1.3 Main conclusions and recommendations**

59. Since the 44<sup>th</sup> plenary, the Cypriot authorities have taken further meaningful steps to ensure that banks implement the recommendations made in the Special Assessment Report. In particular, the CBC has now shifted its focus to on-site monitoring to verify that the updated policies and procedures of banks are being adequately implemented in practice and ensure that the concerns raised by the special assessment team are being properly addressed. While the process is still ongoing, this review is satisfied that the CBC appears to be moving in the right direction.
60. It is recommended that the CBC continue implementing its on-site monitoring programme, particularly by undertaking further comprehensive on-site examinations. Priority should be given to those banks visited by the special assessment team, insofar as this is consistent with the CBC's risk-based supervisory programme. The CBC should also consider conducting a focussed inspection at those banks which have not yet received a visit.
61. The CBC should follow-up on the action taken by banks in relation to deficiencies identified during comprehensive on-site examinations. Clear and definite time-frames should be established for addressing the identified deficiencies. Effective, proportionate and dissuasive sanctions should be imposed by the CBC for any serious breaches, where this is considered appropriate. The CBC should also continue monitoring action taken by the banks which have received a focussed visit, to ensure that the measures recommended by the CBC will be implemented.
62. The CySEC, CBA and ICPAC have continued implementing and enhancing their AML/CFT supervisory programme under the vigilance of the Troika institutions. The restructuring process of the Company Registry is well underway and the backlog of unsubmitted annual returns and financial statements by registered companies is expected to be cleared shortly. No further recommendations are being proposed since the supervision of administrative service providers is being closely monitored by the Troika institutions. However, the Cypriot authorities should provide updates as suggested in the paragraph below.
63. In light of the findings of this review, it is considered that Cyprus should be requested to provide a report at the 48<sup>th</sup> plenary in September 2015 on further progress made in relation to the Special Assessment Report. In the interim period, Cyprus should continue updating the plenary on any measures taken and progress achieved under MONEYVAL's tour de table procedure.

MONEYVAL Secretariat

September 2014



## **2. *Report submitted by Cyprus***

COUNCIL OF EUROPE



CONSEIL DE L'EUROPE

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

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

**[submitted: 14 August 2014  
Updated: 8 September 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:**

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 addition, 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 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 2014, the CBC issued a set of Guidelines 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 exploitation 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 programmes 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 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.

F) Relevant seminars were organised for the Money Laundering Compliance Officers of all credit institutions

- 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.
- On 28 March 2014, the CBC in collaboration with MOKAS and an external firm organised a seminar for the Money Laundering Compliance Officers of all credit institutions. This seminar covered the recent changes to the legal and regulatory framework (including the AML Law and Regulations), tax crimes, construction and submission of SARs, and Risk Management Systems.
- On 19 May 2014 the CBC in cooperation with the Cyprus Institute of Financial Services organised a seminar which covered highlights from the Moneyval and Deloitte special assessments, PEPs and their regulatory framework and tax crime as a predicate offence for ML purposes. In particular during that session the regulatory framework on tax crimes was explained as well as examples on legal tax structures/business structures likely to be used for legitimate tax planning purposes in Cyprus.

G) Onsite examinations

As at end Q2 2014, the CBC has completed comprehensive examinations at four credit institutions, the fifth and sixth currently being in progress. A further nine credit institutions were visited in June (1-2 days each, using a tailored programme) to obtain evidence, inter alia, of implemented measures stemming from the recommendations made by Moneyval following its Special Assessment. Some of these institutions will also be covered by comprehensive audits in the second half of 2014. It should be noted that the CBC applied a risk based approach in selecting its sample using its new offsite tool. Credit institutions selected comprised of 15 banks (out of 32 in total), exceeding 85% in total assess and 68% in deposits of the total banking sector.

Measures taken by the credit institutions:

In March 2014, the Money Laundering Compliance Officers of all credit institutions confirmed that their respective institutions had 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).

In this connection, and in line with the new risk-based supervisory approach adopted by the CBC, the AML Unit of the CBC analysed the Annual Reports and Risk Assessment Reports submitted by the institutions referred to under G above, 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.

During the onsite examinations carried out in these banks, it was established that banks' policies and procedures are in line with the current regulatory framework and appropriate to the nature and size of their business.

In addition it was established that their policies and procedures determine the categories of high risk customers as well as those attributes/circumstances which if they are present can place a customer into high risk category. In this respect, it was established that banks' policies and procedures recognise that the accumulation of risks in complex business in itself presents overarching risk. In addition, it was established that banks' policies and procedures set out the enhanced measures which need to be taken to mitigate these overarching risks as well as the criteria for accepting customers and specify cases where it is appropriate based on an assessment of the risks to reject or terminate a client relationship.

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 G are relevant.

Measures taken by the credit institutions:

In March 2014, the Money Laundering Compliance Officers confirmed that 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.

As already mentioned under question 1 point G above, during onsite examinations carried out at fifteen banks, it was established that policies and procedures determine the categories of high risk customers as well as those attributes/circumstances which, if present, can place a customer into high risk category. In this respect, it was established that credit institutions' policies and procedures recognise that the accumulation of risks in complex business in itself presents overarching risk. In addition, it was established that credit institutions' policies and procedures set out the enhanced measures which need to be taken to mitigate these overarching risks. Moreover, it was noted that all credit institutions' policies and procedures describe the circumstances under which their officials should meet directly with the person who ultimately owns or exercises control over the customer. In this connection, the credit institutions were requested to present to the CBC examiners cases of customers with which, as a result of the implementation of their policies, the credit institution had direct meetings with them.

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 keeps 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.

The CBC in cooperation with representatives of credit institutions and the Association of Cyprus Banks have developed (i) a questionnaire which will assist them to assess third parties at the onset of the business relationship and (ii) specific criteria (a scorecard) that will be used by the Money Laundering Compliance Officers at the onset and in the course of the business relationship with



them. The said questionnaire and scorecard was forwarded to all credit institutions by the Association of Cyprus Banks by the end of May 2014.

Irrespective of the above and in order to ensure a level playing field and regulatory compliance by all credit institutions, on 10 July 2014, the CBC forwarded the said two documents to all credit institutions obliging them to make use of them in case their institution's policy allows them to rely on third parties for customer identification purposes. In this connection, each credit institution should arrange for the said new questionnaire to be completed for all third parties with whom it has a business relationship and to reassess them in accordance with the requirements of the Law and the CBC Directive.

In addition to the above, credit institutions were requested to make use of the scorecard during the application of the review procedure and assign a score to each third party which will determine the continuation or termination of the relationship, accordingly. It should be noted that the CBC requested credit institutions to complete the said process by the end of November 2014.

Based on the said set of specific criteria (scorecard), the credit institutions must reassess their business relationships with the third persons and 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 the other supervisory bodies. The former 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. In this connection, the CBC has forwarded a set of listing criteria to the credit institutions for consultation. As soon as the listing criteria are agreed the CBC will issue a Directive, which will govern the operations of the registry. At the same time the IT department of the CBC has started developing the infrastructure of the registry and testing is expected to begin in September.

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

Measures taken by the credit institutions:

In March 2014, the Money Laundering Compliance Officers confirmed that credit institutions amended and enhanced their AML/CFT policies and procedures to be in line with the legal and regulatory framework. 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.

During the onsite examination carried in fifteen credit institutions it was established that credit institutions' policies and procedures have been amended and enhanced in order to be in line with the regulatory framework.

In addition, it was established that all credit institutions who rely on business introducers have already begun the process of reassessing existing business relationships with third parties and have developed a time plan to fully implement the above requirement in due course.

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.

Furthermore, 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 accounts/transactions on a regular basis.

It is emphasised 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. 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 G are relevant

Measures taken by the credit institutions:

In March 2014, the Money Laundering Compliance Officers confirmed that all credit institutions' AML/CFT policies and procedures have been amended to be in line with the above mentioned regulatory requirements.

During onsite examinations carried out in fifteen credit institutions, it was established that credit institutions' policies and procedures provide 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. Policies and procedures of some credit institutions go beyond the CBC requirements, requiring the Money Laundering Compliance Officer's opinion for all customers, irrespective of risk categorisation.

In addition, lists of all new customers who established a business relationship with the said credit institutions during 2014 were obtained by CBC examiners. Using a random sampling procedure,

a number of high risk customers was selected from each institution to verify that the above had been implemented. In this connection, it was evidenced that in all cases of high risk customers the Money Laundering Compliance Officer's opinion was obtained. It is worth noting, that in some cases the on-boarding of certain prospective customers was terminated in view of the negative opinion given by the Money Laundering Compliance Officer.

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. Credit institutions 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 have in place 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 G are relevant.

Measures taken by the credit institutions:

In March 2014, the Money Laundering Compliance Officers confirmed that their institutions have reviewed the resources allocated to the Money laundering compliance units and to the units monitoring transactions, and measures have been taken where needed.

During onsite examinations carried out in fifteen credit institutions it was noted that ten institutions have strengthened their resources by hiring more staff in compliance units. Four credit institutions reviewed their staff resources allocated to their AML Unit and concluded that there was no need to increase the staff. The remaining institution identified the need to increase the staff and is in the process of finding and recruiting an appropriate person.

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 (PEPs). 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 or 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 must be obtained for the continuation of such relationships.

B) Please refer to CBC’s response to Question 1 above. Points B to G are relevant.

Measures taken by the credit institutions:

In March 2014, the Money Laundering Compliance Officers confirmed that 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 identified, reviewed and reassessed 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.

During onsite examinations carried out in fifteen credit institutions, it was established that policies and procedures, including Account Opening Forms, are in line with the abovementioned requirement. In addition, it was evidenced that all credit institutions have systems and procedures in place to rescreen their customers and their beneficial owners against PEPs lists. In two cases it was noted that the implementation of an IT system has not been finalised yet.

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 G are relevant.

Measures taken by the credit institutions:

In March 2014, the Money Laundering Compliance Officers confirmed that 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. Examples of 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 reviews) to ensure effective implementation of policies and procedures.
- Enhanced/upgraded 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 visited or contacted directly by credit institution officials.

During onsite examinations carried out in fifteen credit institutions, it was established that credit institutions' policies and procedures are in line with the AML regulatory framework requiring credit institutions' officials to collect adequate information which is detailed, meaningful, accurate and regularly updated. For high risk customers additional/enhanced due diligence measures are applied.

As already mentioned above under the response to Question 1 Point G, a sample of high risk

customers was selected from each institution to establish whether credit institutions effectively implement the Customer Due Diligence procedures. In this connection, it was evidenced that the purpose of the business relationship was identified and recorded in almost all cases and that the economic and business profile of high risk customers is detailed, meaningful and accurate. Nevertheless, some minor weaknesses were identified in certain cases and recommendations were given to the relevant credit institution for improvement.

Furthermore, it should be noted that during the comprehensive (full scope) onsite examinations the sample of both new and existing customers selected is much bigger, and testing covers all aspects of CDD procedures including the updating of business and risk profiles of all customers. In this connection, it has been evidenced that credit institutions have indeed put a great effort and improved their AML procedures so as to be commensurate with the risks they are facing.

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.
- Article 60(d) of the Law requires persons carrying out financial or other business activities to apply customer identification and due diligence measures when there are doubts about the veracity or adequacy of previously obtained customer identification documents, data or information. Furthermore, article 62(6) of the Law requires the application of customer identification and due diligence procedures not only to new customers but also at appropriate intervals to existing customers, depending on the level of risk of being involved in money laundering or terrorist financing activities.
- Section 4.5 of the CBC Directive, requires credit institutions to ensure that their customer identification records as well as the information that form their business/economic profile remain completely updated throughout the business relationship. In this respect, credit institutions must examine and check on a regular basis the validity and adequacy of the customer identification data and information they maintain, especially those concerning high-risk customers.
- Despite the above and taking into account the level of risk, if at any time during the business relationship with an existing customer, a credit institution becomes aware that reliable or adequate data and information are missing from the identity and the business/economic profile of the customer, then the credit institution should take all necessary action, by applying the customer identification and due diligence procedures, to collect the missing data and information, the soonest possible, so as to update and complete the customer’s business/economic profile
- Please refer to CBC’s response to Question 1 above. Points B to G are relevant

**Measures taken by the credit institutions:**

In March 2014, the Money Laundering Compliance Officers confirmed that 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 the CBC 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 occur. A great number of credit institutions informed the CBC 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 7 is also relevant.

During onsite examinations carried out in fifteen credit institutions it was established that credit institutions' policies and procedures are in line with the AML regulatory framework. In addition it was evidenced that based on the nature, size and complexity of credit institutions' business, different measures, systems and procedures are in place in dealing with this issue. For example three credit institutions established a dedicated team within the compliance unit for reviewing and updating the KYC data. Some institutions have upgraded their AML IT systems and a couple of them are reviewing the calibration of their AML IT systems and monitoring procedures to ensure that they are in line with the risks identified during their Risk Assessment.

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 G are relevant.

C) Seminars organised:

- 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.
- On 28 March 2014, the CBC in collaboration with MOKAS and an external firm organised a seminar to the Money Laundering Compliance Officers of all credit institutions. This seminar covered the recent changes to the legal and regulatory framework, tax crimes, construction and submission of SARs, and risk management systems.
- On 19 May 2014 the CBC in cooperation with the Cyprus Institute of Financial Services organised a seminar which covered highlights from the Moneyval and Deloitte special assessments, PEPs and their regulatory framework and tax crime as a predicate offence for ML purposes. In particular during that session the regulatory framework on tax crimes was explained as well as examples on legal tax structures/ business structures likely to be used for legitimate tax planning purposes in Cyprus.

Measures taken by the credit institutions:

In March 2014, the Money Laundering Compliance Officers confirmed that they 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, are also included in the Money Laundering Compliance Officer's Annual Report.

During onsite examinations carried out in fifteen credit institutions, it was established that tailored in-house seminars were organised in various credit institutions. In addition, it was established that Money Laundering Compliance Officers and compliance staff attended specialised seminars in Cyprus and/or abroad.

*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 E are relevant.
- 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.
- The following seminars have taken place during 2014 in the financial and non-financial sector by each supervisory authority and in cooperation with the Cyprus FIU, MOKAS, in order to explain, inter-alia, the new provision of the law in relation to tax crimes.
  - MOKAS in collaboration the CBC and an external firm organised a seminar to the MLCOs of all credit institutions on 28 March 2014. This seminar covered the recent changes to the legal and regulatory framework, tax crimes, construction and submission of SARs, and risk management systems.
  - MOKAS in cooperation with CYSEC, the CBA and other organisations has organised two seminars on 9/5/2014 in Nicosia and on 26/7/2014 in Limassol which covered the AML Legislation and among other the requirements to report SARs, including the duty to report issues relating to tax crimes. Members of ICPAC were also invited and participated in the above seminars.
  - The CBC in cooperation with the Cyprus Institute of Financial Services organised a seminar on 19 May 2014 which covered highlights from the Moneyval and Deloitte special assessments, PEPs and their regulatory framework, and tax crime as a predicate offence for ML purposes. In particular during that session the regulatory framework on tax crimes was explained as well as examples of legal tax structures as well as business structures likely to be used for legitimate tax planning purposes in Cyprus.
  - MOKAS has delivered a seminar to the staff of Deloitte, one of the big audit firms, upon invitation on 16 June 2014. The seminar covered amongst others the AML Law, and the requirements to report STRs, including the duty to report issues relating to tax crimes.

During CBC's onsite examinations carried out in fifteen credit institutions it was established that several SARs were submitted to MOKAS by eight of the credit institutions whereby a suspicion of "tax crime" was raised. It is evident that the guidance provided to the financial sector through the Guidelines and various seminars raised the awareness of staff on the identification of suspicious activities related to tax crime.

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 and continues to strengthen 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 at least two additional

experts, fully dedicated to AML/CFT issues by the end of 2014. An offer has been made to one expert, who is expected to start in October 2014, and another will be transferred internally from within the CBC.

- The CBC, with the technical assistance of the IMF, designed and developed a risk-based assessment methodology and tools for offsite and onsite supervision, which are tailored to the business model adopted in Cyprus and particularly address the high risks inherent in this model.
- In relation to offsite supervision, the CBC designed, developed, and adopted, a risk assessment methodology and tools that provide 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).
- 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. As of end Q2 2014, four full scope inspections have been finalised and two are currently in progress. It should be noted that the CBC AML/CFT Unit's capacity and expertise is complemented in the said inspections by the use of external auditors who have been selected via a tender procedure.

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's 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 to 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 have finalised and adopted a detailed action plan approved by the Council of Ministers on 30 April 2014 aiming to restructure the Department according to best international practice with a specific timeframe for its implementation.

For the implementation of the action plan a project team has been set up while additional staff has been assigned for the implementation of all necessary actions. Within this framework, written notice from the Registrar has been given to all legal persons to comply with their filing obligations of annual return forms and financial statements by the end of June 2014, while procedures have been initiated for the strike off or removal of companies that are non compliant, according to sections 327 and 391 of the Company Law, accordingly.

Based on this action plan, it is expected that the Registry of legal persons held at the Registrar

will be updated and cleansed from non compliant companies by January 2015. At the same time, and concurrently to these actions, all relevant documents on legal persons are being scanned with a view to have all documents on legal persons available for perusal by the public in electronic form. It is noted that as from July 2014, basic information on legal persons (name and type of company, registration number, date of incorporation and status - registered, struck off etc.-, Directors, Company Secretary, registered office address) is available through the Registrar's website, free of charge.

It should further be noted that the implementation of this action plan, 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 of 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 enactment 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. Registers are also maintained of the subsidiary companies of ASPs and of the persons employed by them.

(g) A number of training activities have been carried out in 2013/2014 and scheduled for the remainder of 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 seminars; whilst in 2014 similar updated activities are being pursued, for the benefit of the members.

(h) The Institute has developed and finalised a risk based offsite surveillance tool for all its licensed firms.

(i) ICPAC is up-to-date with the requirements of the AML Action Plan imposed by Troika.

### **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. The supervisors have been trained by a firm providing compliance training whereas the head of the department has completed and obtained the International compliance diploma by UK.

As regards training, a seminar on AML matters has been presented to the trainee advocates in February 2014 and two all day seminars have been organised in cooperation with MOKAS, CySEC and other organisations (9 May 2014 & 26 June 2014). The CBA has revised its AML Directive. <http://www.cyprusbarassociation.org/v1/index.php/en/>

After the enactment of the ASP Law a separate registry for ASPs regulated by the CBA has been established and is posted on the CBA's website. A Directive has been approved, which regulates the supervision of ASPs. The CBA provides its members with the necessary certificates when requested.

All the ASP registries are linked through the websites of the authorities.(CYSEC - CBA – ICPAC)

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.