

# Anti-money laundering and counter-terrorist financing measures

## Cyprus

### 4th Enhanced Follow-up Report & Technical Compliance Re-Rating

June 2025

Follow-up report



**The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism - MONEYVAL** is a permanent monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems. Through a dynamic process of mutual evaluations, peer review and regular follow-up of its reports, MONEYVAL aims to improve the capacities of national authorities to fight money laundering and the financing of terrorism more effectively.

The 4th Enhanced Follow-up Report and Technical Compliance Re-Rating on Cyprus was adopted by the MONEYVAL Committee through written procedure (12 May 2025).

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## *Cyprus: 4th Enhanced Follow-up Report*

### **I. INTRODUCTION**

1. The 5th round mutual evaluation report<sup>1</sup> (MER) of Cyprus was adopted in December 2019. Given the results of the MER, Cyprus was placed in enhanced follow-up<sup>2</sup> and its 1st Enhanced Follow-up Report (FUR)<sup>3</sup> was adopted in December 2021. The 2nd<sup>4</sup> and 3rd<sup>5</sup> enhanced follow-up reports were adopted in November 2022 and December 2023 respectively. This report analyses the progress of Cyprus in addressing the technical compliance (TC) deficiencies identified in its MER and/or subsequent FUR, where requested to do so by the country. Re-ratings are given where sufficient progress has been made. Overall, the expectation is that countries will have addressed most, if not all, TC deficiencies by the end of the third year from the adoption of their MER.

2. The assessment of the request of Cyprus for TC re-ratings and the preparation of this report were undertaken by the following Rapporteur team (together with the MONEYVAL Secretariat):

- Slovenia

3. Section III of this report summarises the progress made by Cyprus in improving TC. Section IV sets out the conclusion and a table showing which Recommendations (R.) have been re-rated.

4. In line with MONEYVAL's Rules of Procedure, the follow-up process is desk-based – using information provided by the authorities, including revised legislation. It does not address what progress a country has made to improve the effectiveness of changes introduced by the country.

### **II. BACKGROUND, RISK AND CONTEXT**

5. A number of significant changes have been made since adoption of the MER or subsequent FURs that are relevant for considering recommendations (R.) that have been reassessed.

6. Regarding R.13, on 20 October 2023, Law 98(I)/2023 amended the Anti-money Laundering and Countering the Financing of Terrorism (AML/CFT Law), specifically Section 64(1)(b), by removing the distinction between correspondent relationships with respondents in the European Economic Area (EEA) and those in third countries. As a result, credit and financial institutions must now apply the same due diligence requirements to all cross-border correspondent relationships, including assessing the respondent institution's business activities, reputation, and supervision quality.

7. On March 1, 2021, the European Banking Authority (EBA) published its revised ML/TF Risk Factors Guidelines under Art. 17 and 18(4) of Directive (EU) 2015/849 to align with the updated legislative framework and address new emerging ML/TF risks. These guidelines repealed and replaced 2017 version of Joint Guidelines (JC/2017/37) and are enforceable by the Central Bank of Cyprus Directive (CBC Directive).

8. Additionally, the Ministry of Interior (MoI) has finalized a risk assessment of the non-profit organisation (NPO) sector in Cyprus, leading to issuance of the Terrorist Financing Risk Assessment Report in November 2024, which addresses some of the shortcomings identified in R.8.

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1. Mutual Evaluation Report 2019 available at <https://rm.coe.int/mer-cyprus-/16809c3c47>.

2. Regular follow-up is the default monitoring mechanism for all countries. Enhanced follow-up involves a more intensive process of follow-up.

3. 1st Enhanced Follow-up Report, available at <https://rm.coe.int/moneyval-2021-20-fur-cyprus/1680a52895>.

4. 2nd Enhance Follow-up Report, available at <https://rm.coe.int/moneyval-2022-17-fur-cy/1680a92582>.

5. 3rd Enhanced Follow-up Report, available at <https://rm.coe.int/moneyval-2023-19-cy-3rdenhfur/1680ae8293>.

### III. OVERVIEW OF PROGRESS TO IMPROVE TECHNICAL COMPLIANCE

9. This section summarises the progress made by Cyprus to improve its TC by addressing the TC deficiencies identified in the MER and applicable subsequent FUR for which the authorities have requested a re-rating (R.8 and R.13).

10. Although the authorities have requested re-rating for R.31, currently rated partially compliant (PC), no re-rating was considered by MONEYVAL in application of Rule 21(8) of the Rules of Procedure.

11. This report takes into consideration only relevant laws, regulations or other anti-money laundering and combating financing of terrorism that are in force and effect at the time that Cyprus submitted its country reporting template – at least six months before the follow-up report is due to be considered by MONEYVAL.<sup>6</sup>

#### II.1 Progress to address technical compliance deficiencies identified in the MER and subsequent FURs

12. Cyprus has made some progress to address the TC deficiencies identified in the MER and applicable subsequent FURs. As a result of this progress, Cyprus has been re-rated from PC to largely compliant (LC) on R. 13. Recommendation 8 remains rated PC.

13. Annex A provides a description of the country's compliance with each recommendation that is reassessed, set out by criterion, with all criteria covered. Annex B provides the consolidated list of remaining deficiencies of the re-assessed recommendations.

14. Attention is drawn to the following parts of Annex A, where further explanation is necessary:

Criterion 13.3 – Amendment Law 13(I)/2021, dated 23 February 2021, deleted the phrase “is known to” and added the phrase “assess and” to Section 66(1)(b) of the AML/CFT Law. The amended section explicitly states that the correspondent institution must satisfy itself that the respondent institution does not permit its accounts to be used by shell banks—wording that was not included in FUR1. The phrase “*known to allow their accounts to be used by shell banks*” is no longer applicable.

### IV. CONCLUSION

15. Overall, in light of the progress made by Cyprus since its MER, 1st, 2nd and 3rd enhanced FUR were adopted, its TC with the Financial Action Task Force (FATF) recommendations has been re-rated as follows.

**Table 1. Technical compliance with re-ratings, May 2025**

R.1	R.2	R.3	R.4	R.5
LC (MER)	LC (MER)	C (MER)	C (MER)	LC (MER)
R.6	R.7	R.8	R.9	R.10
LC (MER)	LC (MER)	PC (FUR 2025) PC (FUR 2023) PC (FUR 2022) PC (FUR 2021) PC (MER)	C (MER)	LC (MER)

6. This rule may be relaxed in the exceptional case where legislation is not yet in force at the six-month deadline, but the text will not change and will be in force by the time of the plenary. In other words, the legislation has been enacted, but it is awaiting the expiry of an implementation or transitional period before it is enforceable. In all other cases the procedural deadlines should be strictly followed to ensure that experts have sufficient time to do their analysis.



R.11 C (MER)	R.12 LC (MER)	R.13 <b>LC (FUR 2025)</b> <del>PC (FUR 2021)</del> <del>PC (MER)</del>	R.14 C (MER)	R.15 LC (FUR 2023) <del>PC (FUR 2022)</del> <del>PC (FUR 2021)</del> <del>LC (MER)</del>
R.16 LC (MER)	R.17 C (MER)	R.18 LC (MER)	R.19 LC (MER)	R.20 C (MER)
R.21 C (MER)	R.22 LC (MER)	R.23 LC (MER)	R.24 LC (MER)	R.25 LC (MER)
R.26 LC (MER)	R.27 C (MER)	R.28 LC (MER)	R.29 C (MER)	R.30 LC (MER)
R.31 PC (FUR 2022) PC (FUR 2021) PC (MER)	R.32 LC (MER)	R.33 C (MER)	R.34 LC (MER)	R.35 C (MER)
R.36 C (MER)	R.37 LC (MER)	R.38 C (MER)	R.39 C (MER)	R.40 C (MER)

*Note:* There are four possible levels of TC: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

16. Cyprus has achieved a LC or C rating in respect of 38 recommendations, with two recommendations (R.8 and R.31) remaining rated PC. The MONEYVAL onsite visit to Cyprus for the 6th round mutual evaluation will take place in October 2028. Taking this into account and in line with Rule 23 of MONEYVAL's Rules of Procedure, Cyprus will no longer be subject to the fifth-round follow-up process.

## Annex A: Reassessed Recommendations

### *Recommendation 8 – Non-profit organisations*

	Year	Rating and subsequent re-rating
<b>MER</b>	2019	PC
<b>FUR1</b>	2021	PC (upgrade requested, maintained at PC)
<b>FUR2</b>	2022	PC (upgrade requested, maintained at PC)
<b>FUR3</b>	2023	PC (upgrade requested, maintained at PC)
<b>FUR4</b>	2025	PC (upgrade requested, maintained at PC)

1. In its 2019 MER, Cyprus was rated PC with R.8, based on: (i) failure to identify the subset of NPOs which may be vulnerable to TF abuse ; (ii) failure to identify the nature of the threats posed by terrorist entities to those NPOs which are at higher risk; (iii) absence of reassessment of NPO sector; (iv) limited outreach; (v) failure to develop best practices with NPOs to address TF risk; (vi) absence of measures to encourage use of regulated financial channels; (vii) failure to supervise/monitor NPOs on a risk-sensitive basis; (viii) gaps in sanctions that may be applied to NPOs; (ix) doubts about capacity to examine NPOs suspected of being exploited by, or actively supporting, terrorist activity or organisations; (x) absence of a specific mechanism for sharing information with competent authorities where there is TF suspicion; and (xi) failure to identify appropriate contact points and procedures to respond to international requests for information about NPOs.

2. Cyprus' compliance with R.8 has been reassessed in its three previous FURs, however most of the shortcomings identified in the MER have been only partially addressed, therefore Cyprus retained a rating of PC.

### 3. **Criterion 8.1 –**

(a) In 2024 Cyprus (with the help of an external service provider) has finalised the first risk assessment of NPOs identifying a subset of NPOs which are likely to be at risk of TF abuse. The methodology used for the risk assessment encompasses multiple criteria related to ML, TF and tax abuse. However, the risk calculation method is set up in a way to enable distinction between the indicators that are directly linked to TF risk (as opposed to ML) and thus can provide risk calculation results solely based on TF. TF risk calculation is based on the following risk indicators: negative information or sanctions applied to NPO; links of the management personnel who is a foreign politically exposed person (PEP) with high-risk countries; source of funding with a geographical component; anonymous donations, including made in cash; distribution of funds using cash or crypto assets; NPO activities (and whether the financial flows correspond to the NPO activities); country of origin of beneficial owner (BO) or trustee; maintenance of bank accounts in foreign jurisdictions; financial relations with persons from high-risk countries linked to TF.

In November 2024, the Ministry of Interior (MoI) issued the Terrorist Financing Risk Assessment Report for the NPO sector in Cyprus a formal document containing analysis of threats, vulnerabilities and presenting consolidated findings and conclusions of NPO TF risk assessment. The assessment evaluates TF threats by analysing law enforcement data, suspicious transaction reports, open-source intelligence and examines vulnerabilities related to governance, transparency and financial controls, compared with findings from the 2022 TF risk assessment exercise, which analysed replies to risk assessment questionnaire of a representative sample of NPOs. This exercise covered 2009<sup>7</sup> (out of total 4151 NPOs) that fall under the FATF definition, including only NPOs registered with MoI: societies, institutions, charities and federations/associations. However, non-profit companies were not included into the assessment

7. The total number of NPOs that fall under the FATF definition differs from the total reported in the 2nd Follow-up report, where the authorities have estimated that around 10% (around 450) of NPOs fall under the FATF definition.

and work on identifying non-profit companies that fall under the FATF definition has not been completed. The authorities reported that Ministry of Finance (MoF), in collaboration with relevant authorities, is still identifying a subset of non-profit companies that fall under FATF definition, currently estimating their number to be under 200 based on available data from the Registrar of Companies, Tax Department and Statistical Service. It is also foreseen that with the support of the same outside consultant, the identified subset of non-profit companies will be subject to the risk assessment for completeness reasons. However, since the MER no evidence has been provided to substantiate these claimed actions, and with no finalised reviews or statistical data, it remains unclear how the limited materiality of non-profit companies has been assessed. Without a risk assessment that specifically addresses TF risks in non-profit companies and analyses their actual activities, structure, funding sources and financial flows, the argument of low materiality is insufficient.

The risk assessment results shared by the authorities show that only 2% NPOs assessed are exposed to a higher risk of TF abuse (medium-high to high risk), with institutions and charities being more susceptible than societies. The report broadly identifies types of NPOs that may be vulnerable to TF abuse, particularly those with BOs or management connected to high-risk jurisdictions, those supporting vulnerable groups from such countries (e.g. refugees, immigrants from conflict zones)- especially through financial aid- and those handling funds via unregulated channels, such as cash or anonymous donations. According to the findings of the NPO risk assessment, the overall TF risk exposure of the NPO sector in Cyprus is determined to be low.

- (b) Cyprus has identified general TF threats arising from the (i) geographical location of Cyprus;<sup>8</sup> (ii) NPOs' activities; (iii) governance of NPOs; and (iv) fund flows. Authorities report that geographical factors might potentially influence the likelihood of fund flows towards the countries considered high risk from TF perspective. A large number of immigrants and refugees might utilise numerous fund-raising activities, incl. fund raising activities in cash; moreover, situations have been observed where immigrants and refugees originating from higher risk countries become members of the management bodies or BOs of the NPOs, incl. those that hold PEP status in foreign jurisdictions. These threats were used as a basis to develop a list of TF risk factors which are used for the risk assessment (see c.8.1(a) for more information).

Cyprus authorities identified potential TF threats in the NPO sector by analysing law enforcement data (e.g. TF-related convictions, prosecutions, investigations), financial intelligence, risk assessment questionnaire and financial behaviours, including cash reliance and ties to high-risk jurisdictions. The assessment identified several potential ways in which NPOs could be misused for TF purposes that include fund diversion, affiliation with terrorist entities, exploitation of refugee aid programs, and unregulated financial transactions, though no concrete TF cases have been recorded. The TF threats identified for NPOs in Cyprus include the risk of terrorists exploiting NPOs that support increased inflow of refugees from neighbouring conflict zones to collect funds or logistically support terrorists (misuse refuge shelters as transit points); individuals with ties to high-risk TF countries or holding PEP status managing or owning NPOs; fundraising activities, particularly cash-based, occurring in proximity to terrorist-designated organizations; and Cyprus' strategic location potentially facilitating fund flows to jurisdictions with high TF risk.

- (c) The Law on Societies and Institutions and other related matters (LSI) was adopted in 2017 to update the legislative framework governing the activities of societies and institutions and ensuring that it is in line with the requirements under R.8. The authorities have clarified that most charities in Cyprus are state-funded and therefore they are unlikely to pose a high risk for TF, therefore remain governed under the Charities Law. Cyprus initiated a review of the adequacy of the measures that apply to non-profit companies. Authorities report that the

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8. Since 1974, the northern part of the island has not been under Government control (occupied area).

decision has been taken to establish an ad hoc committee that is tasked with reviewing the control framework for non-profit companies and suggesting necessary changes to it, if deemed necessary. The authorities report that the review has been finalised and relevant drafts amending legislation have been prepared by the authorities, however, the results of such a review have not been shared by Cyprus. As noted under c.8.1(a), non-profit companies are still to be assessed for TF risk which is pre-requisite for such a review. While corporate governance and financial transparency requirements for non-profit companies may prevent general financial misconduct or ML threats, they do not specifically address the typologies of TF abuse.

The MoI has initiated a review of the current legal and regulatory framework for the entire subset of NPOs under its oversight but has not yet taken any legislative action to introduce proportionate, risk-based regulatory measures such as appropriate internal controls, record keeping procedures, or stricter financial controls for NPOs identified as having greater TF exposure.

- (d) In 2024 Cypriot authorities completed the first TF risk assessment of the NPO sector (see c.8.1(a) for more information). According to the authorities, the TF risk assessment of the NPO sector should be revised every 5 years, yet no official document was provided to substantiate this requirement.

#### 4. **Criterion 8.2 –**

- (a) Currently, the same requirements apply to non-profit companies as to regular companies. Non-profit companies are required to file annual returns, prepare financial statements in line with the International Accounting Standards, and might be subject to the strike off procedure (Art. 119, 121, 142 of the Companies Law). For every company that is required to prepare consolidated financial statements, mandatory audit or review of the financial statements, consolidated financial statements, management report and consolidated management report by auditors is required (Art. 152A(1) of the Law on Companies). These requirements provide a level of accountability in the administration of non-profit companies; however, additional measures are expected to promote integrity and public confidence in the administration and management of non-profit companies. As noted at c.8.1(c), although the authorities stated that the review of the adequacy of the measures in relation to non-profit companies has been finalised, no relevant documents on the results thereof have been shared. Moreover, non-profit companies were not part of risk assessment thus it is not clear on which basis the review has been conducted and legislative changes prepared, as announced by the authorities.
- (b) Extensive outreach was conducted to the NPOs by approx. mid-2022 on different topics, such as risks to the NPO sector, self-monitoring, best practices, etc. However, the scope and depth of the discussed topics that relate to risks and vulnerabilities cannot be fully determined, as only partial translations into English of the training material were made available. Outreach events were attended by the representatives of approx. 1 000 NPOs (out of approx. 4 500). No differentiation was made between different types of NPOs when designing the content of training/outreach material, thus it is doubtful whether the scope and depth of the outreach was determined on the risk sensitive basis and/or carefully considered different characteristics of NPOs. Although no specific TF-related educational programmes have been designed for the donor community, however, Cyprus authorities report the existence of outreach events, i.e., the President of the Donation's Authority speaks regularly (once every three months) on TV and radio channels about various fundraising activities, including protection from TF abuse.

In 2023, the authorities reported that they continue to conduct outreach to “umbrella” NPOs that focuses on communication of good practices guidance, governance, legal framework and implementation challenges thereof, monitoring by the competent authorities and unintended consequences. Although generally these topics deserve attention by both, NPOs and the authorities, the themes discussed, however, do not specifically cover potential vulnerabilities of



NPOs to TF abuse and TF risks and the mitigating measures that NPOs can undertake to protect themselves from TF abuse. The Communications Strategy outlines the mechanisms for communication between relevant government authorities and the NPO sector in order to raise awareness on these issues. However, a brief summary of the training material does not support that TF aspect is appropriately covered in the outreach activities.

- (c) The MoI published guidance for the sound operation of NPOs (best practices paper). This guidance – designed to be used as a self-diagnostic tool – covers key areas necessary to protect NPOs from TF abuse. The best practices paper, however, concentrates on discussing governance, internal control and operational principles rather than focusing on the protection from TF abuse. For example, the guidance paper further suggests that resources cannot be transferred to the persons involved in gambling but is silent regarding any other beneficiary-related risk factors which might be more indicative of TF risk, such as targeted financial sanctions’ screening performed on beneficiaries, including residence in high-risk areas or conflict zones, etc. Moreover, it is not clear as to why donating money is considered a higher risk for TF than sending money to beneficiaries, as no such geographical restrictions for beneficiaries exist as opposed to restrictions for donors, etc. In addition, the best practices paper is uniform and does not differentiate between varying levels of risk exposure by NPOs, nor different types, features and characteristics of NPOs (which, in turn, should signal different types of vulnerabilities). As a result, some requirements contained in the best practices paper seem to place excessive burden to NPOs that are lower risk and/or have limited capacity to adhere to the best practices (e.g., due to small size/scope of the activities), which, consequently, can potentially discourage legitimate NPO activities. Authorities admit that the NPO community expressed diverging views concerning the requirements of the best practices – some welcomed the paper and suggested additional risk-linked amendments, some – were more critical (to support this, specific examples of the feedback from the NPO community were provided by the authorities). Communication with the NPO community is ongoing after the issuance of the best practices paper.

Following completion of TF risk assessment of NPOs, the supplementary best practices paper “Preventing/Combating TF for NPOs” has been published by MoI on its official website and distributed to all NPOs. It improves awareness of TF risks by recognizing Cyprus-specific TF threats and introducing clearer risk-mitigation strategies. It provides a solid foundation for NPOs to safeguard against TF risks, promoting transparency, and encouraging due diligence. While NPOs did not directly contribute to the development and refinement of the updated best practices paper, some feedback from the parallel consultation process on legislative changes was taken into account according to authorities.

- (d) The best practices paper issued by the MoI promotes usage of the banking system.

5. **Criterion 8.3** – The authorities developed a risk-based monitoring methodology (Risk Based Approach for the monitoring of Money Laundering and Terrorism Financing Risks in the NPO sector) and a monitoring strategy. Two types of monitoring are relevant here: (i) basic monitoring and (ii) close monitoring performed by the MoI. As an additional tool, the risk-based monitoring methodology also foresees possibility for thematic reviews that can be performed on a case-by-case basis, dependent on the trigger events or other similar circumstances. Authorities report that basic monitoring is performed yearly (desk-based review) and is based on the following criteria: financial information, activities, beneficial ownership screening, screening regarding maintenance of local bank accounts and risk questionnaire. According to the risk-based monitoring methodology, close monitoring is informed by the outcomes of the risk assessment of the whole NPO sector, i.e., frequency of the close monitoring actions will be dependent on the risk level of the individual NPOs (annually for high-risk NPOs and on regular basis or when deemed necessary for medium-high). Following conclusion of the NPO TF risk assessment, all NPOs which are risk rated as high and /or medium-high for TF solely are subject to close monitoring and priority is given to high risk NPOs for conducting thematic reviews in any key areas of concern. As part of close monitoring, the MoI requires a detailed

financial analysis, including a breakdown of incoming and outgoing funds, supporting documentation as evidence of fund movements, and an audit trail demonstrating the allocation and distribution of NPO funds over time. Moreover, positive actions are being taken by the authorities to build capacity of the teams that are tasked with the close monitoring function, such as trainings aimed at deepening the understanding of the financial statements and accounting principles, as well as ongoing discussions on TF risks.

6. The TF risk categorisation of NPOs allowed the authorities to advance their risk-based monitoring approach, i.e., a risk matrix is used for determining the scope and frequency of supervision of NPOs in accordance with its risk level and the authorities were able to share some information on the most relevant supervisory findings and actions to be taken, based on those findings.

## 7. **Criterion 8.4 –**

- (a) *Societies, institutions, federations/associations, charities:* The implementation of the requirements under the LSI is monitored by the General Registrar (and District Registrars) within the MoI. Monitoring is conducted off-site on the basis of information (e.g. mandatory notifications, audited financial statements) submitted by the NPOs to the registrar. With respect to societies only, the General and District Registrars may carry out inspections, acting on a complaint or on their own initiative, to ascertain whether the conditions laid down in the LSI are fulfilled (Art.7(6)). In addition, the registrar or any person who may establish a legitimate interest may go to the court and request the issue of an order for auditing the accounts of a society, institution or federation/association. The auditing is carried out by the Auditor General.

Non-profit companies are registered with the Department of Registrar of Companies and Official Receiver and have an obligation to file changes and annual return forms.

- (b) Art. 4 of the LSI provides that societies, institutions or federations/associations that are unlawful in the meaning of Art. 63 of the Criminal Code (unlawful association) or the object or operation of which aims or tends to undermine the Republic, the democratic institutions, the security of the Republic, the public interests, the fundamental rights and freedoms of all persons, shall have no legal existence, and should be either refused registration, or dissolved by order of the Court. Additionally, any person who is a member of the unlawful society, institution or federation/association, shall be guilty of an offence and liable to imprisonment not exceeding three (3) years or a fine not exceeding 3 000 euros (EUR) or to both such penalties.

Cyprus has amended “Associations and Foundations and Other Related Matters Law”, however, sanctions foreseen in this law do not apply to charities (regulated by Charities Law) and non-profit companies. As noted in the 2nd FUR, a large number (2 446) of NPOs registered under the previous Societies and Institutions Law of 1972 have been deleted from the register for non-compliance reasons. As a result, these NPOs have lost their legal ability to operate, and their property has been alienated. In particular, their bank accounts were frozen. Reasons for removal have included anomalies with funding and in the preparation of financial statements. Although the particular scope of sanctions for breaching the LSI is limited to striking from the register and dissolution, this is considered to be an important sanction. However, extensive de-registration raises a question as to whether or not there have been unintended consequences. The authorities reported that charities and non-profit companies can be also struck off from the register.

All legal persons, including NPOs can be sanctioned for non-provision of information concerning BOs (AML/CFT Law, Art. 61(b)(10)): NPOs can be subject to a fine of EUR 200 and an additional fine of EUR 100 for each day for which the breach is continued, with a maximum fine of EUR 20 000. If an NPO provides misleading or false information, it can be subject to EUR 100 000 fine or subject to a term of imprisonment of no more than one year; these sanctions are also applicable to NPOs’ controllers (AML/CFT Law, Art. 61(b)(10)(g)). The authorities reported that 592 NPOs have received warning letters with respect to failure to submit financial statements and information on BOs and controllers. In addition, on the basis of the Companies Law (also

applicable to the NPOs), fines can be applied for non-submission of information concerning registered office (Art. 102), directors and company secretary (Art. 192), shareholders (Art. 113A), annual return form (Art.120).

Upon completion of the TF risk assessment of the NPO sector, Cyprus should carry out an overall review of the adequacy of legal and regulatory measures to address the identified risks. Consequently, this review would be key to assess effectiveness, proportionality and dissuasiveness of sanctions for NPOs or their controllers.

**8. Criterion 8.5 –**

- (a) Information on societies, institutions and federations/associations is held by the General Registrar and the District Registrars. There are effective systems in place to ensure cooperation, coordination and information sharing between them. Information on charities and non-profit companies is held centrally by Tax Authority and the Ministry of Energy, Commerce and Industry respectively. There are no other authorities which hold relevant information on NPOs within Cyprus.
- (b) Whilst none of the reported cases specifically relate to investigations related to misuse of NPOs to support terrorist activities or organisations, the authorities presented examples of cases under investigation, prosecution and conviction either involving NPOs or TF. The Financial Crime Unit, through its specialized branches, is responsible for conducting TF investigation, utilizing the investigative powers outlined under R.30 and R.31. Additionally, authorities reported that the Police continuously enhance their knowledge and expertise on the TF aspect through trainings and participation in other international fora. However, these training initiatives did not explicitly address TF risk in relation to NPOs, which may limit the authorities' ability to fully recognize and examine those NPOs suspected of either being exploited by, or actively supporting, terrorist activity or terrorist organisation.
- (c) The LSI and the Charities Law require NPOs to submit information on their administration and management, which is maintained by the respective registrars. This information is available to all competent authorities during the course of an investigation on the basis of the powers described under R.31.
- (d) Registry staff are expected to report to the police, the Financial Intelligence Unit (FIU) or Auditor General where risk factors are identified. The Cyprus police demonstrated that they cooperated with several NPOs under suspicion, however this is not considered a mechanism for the prompt sharing of information.

Nevertheless, the authorities stated that they would rely on a risk assessment and an oversight mechanism over NPOs during which, if suspicion arises, an official of the MoI is responsible for sharing this information with the law enforcement authorities. Although this is positive, it does not amount to a specific mechanism for information sharing on TF suspicion involving NPOs. While sections 55 and 59 of the AML/CFT Law provide the statutory basis for inter-agency information exchange (including with MoI), the authorities have not demonstrated a dedicated, time-bound mechanism ensuring that information on TF suspicions involving NPOs is promptly transmitted to competent authorities.

- 9. Criterion 8.6 –** International requests involving NPOs, if they had to arise, would be received either through the formal channels (i.e. the Ministry of Justice and Public Order ) or informally by the Police or the FIU. The Police and the FIU would obtain the requested information from the General/District Registrar. However, there are no points of contact or procedures specific to requests related to NPOs suspected of TF or other forms of terrorist support.

## Weighting and Conclusion

10. Cyprus has taken a number of measures in respect of NPOs, including finalization of the TF risk assessment of the NPO sector and identification of the features and types of NPOs that are vulnerable to TF abuse, as well as publication of updated best practices guidance raising awareness of TF risks/threats and focusing on protection from TF abuse by NPOs. However, the identification of subset of organizations falling under the FATF definition and conducted risk assessment remain incomplete as they do not cover non-profit companies (c.8.1(a)). Until a full assessment of this subset is conducted or concrete evidence substantiating the low materiality of non-profit companies is presented, the risk exposure of non-profit companies to TF abuse remains unclear, leaving a gap in broader risk-based framework. Moreover, a number of shortcomings still remains: (i) there is no specific requirement to periodically reassess the NPOs (c.8.1(d)); (ii) outreach and educational awareness programs need to be targeted and focused on TF threats, vulnerabilities and actions aimed at protection from TF abuse (c.8.2(b)); (iii) there needs to be closer cooperation with the NPO community regarding development of best practices aimed at protecting from TF abuse (c.8.2(c)); (iv) no additional legislative changes are introduced relating to sanctions for non-compliance with the requirements under R.8 for charities and non-profit companies (c.8.4(b)); (v) training initiatives to enhance knowledge and expertise of Police do not address explicitly misuse of NPOs in the TF context (c.8.5(b)); (vi) there is no specific mechanism to ensure that information related to TF suspicion involving an NPO is shared promptly with the competent authorities (c.8.5(d)); (vii) there are no points of contact or procedures specific to requests related to NPOs suspected of TF or other forms of terrorist support (c.8.6); and (viii) deficiencies identified in the MER concerning non-profit companies remain, namely, lack of evidence of a completion of review process concerning the adequacy of measures (and its results)(c.8.1(c)) and lack of measures to promote accountability, integrity and public confidence in administration and management (c.8.2(a)). Therefore, **Cyprus remains PC with R.8.**

### Recommendation 13 – Correspondent banking

	Year	Rating and subsequent re-rating
<b>MER</b>	2019	PC
<b>FUR1</b>	2021	PC (upgrade requested, maintained at PC)
<b>FUR2</b>	2022	PC (no upgrade requested)
<b>FUR3</b>	2023	PC (upgrade requested, maintained at PC)
<b>FUR4</b>	2025	↑ LC (upgrade requested)

1. In the 2019 MER, Cyprus was rated PC with R.13, based on: (i) failure of the AML/CFT Act to specify requirement for correspondents to collect information about whether their foreign respondents have been subject to ML/TF investigations or regulatory actions; (ii) failure to apply R.13 to respondents situated in the EEA; and (iii) the possibility that financial institutions may rely on third parties to evaluate the risk that respondents may permit their accounts to be used by shell banks.

2. Cyprus requested upgrade of R.13 in the context of the 1st FUR. However, due to the lack of substantial changes in its AML/CFT framework, the rating remained unchanged. By referring to the ESA Guidelines, Cyprus addressed one of its deficiencies, specifically by clarifying that financial institutions must satisfy itself that the respondent does not permit its accounts to be used by shell banks.

3. **Criterion 13.1** – Credit institutions and financial institutions (which together comprise all entities in the FATF definition of “financial institutions”) must:

(a) gather sufficient information about respondent institutions to fully understand the nature of the respondent’s business and to determine from publicly available information the reputation of the institution and the quality of its supervision (see AML/CFT Law Sec. 64(1)(b)(i)). The AML/CFT Law does not specify that credit institutions or financial institutions must collect information about whether their foreign correspondents have been subject to ML/TF investigations or regulatory actions. While the Central Bank of Cyprus (CBC) Directive, aligned with the EBA Guidelines,<sup>9</sup> mandates credit institutions to consider relevant risk factors and customer due diligence (CDD) measures (CBC Directive, paras. 40 and 53), this does not amount to a direct obligation to collect such information. Additionally, the CBC Directive currently applies only to credit institutions, not other financial institutions. However, authorities have confirmed that both credit and financial institutions must consider the amended EBA Guidelines in their risk management. Moreover, according to authorities, on-site examinations by the Central Bank of Cyprus indicate that credit institutions do obtain information on whether respondent institutions have been subject to ML/TF investigations or regulatory actions, though it remains unclear if financial institutions follow the same practice;

(b) assess respondent institutions’ ML/TF prevention;

(c) obtain approval from senior management before establishing new correspondent relationships; and

(d) “document the respective AML/CFT responsibilities” of such institutions. See AML/CFT Law Sec. 64(1)(b)(ii)-(iv). Documenting AML/CFT responsibilities includes understanding, and if necessary, specifying by contract, the respondent’s AML/CFT responsibilities. See CBC Directive, para. 204(vii).

4. The enhanced due diligence requirements apply to correspondent relationships with respondents from third countries as well as to respondent institutions situated in countries of the EEA,

9. Joint Guidelines under Art. 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions.



since the AML/CFT Law no longer provides for an exception for respondent institutions established in the EEA countries (AML/CFT Law Sec. 64(1)(b)).

5. **Criterion 13.2** – Credit institutions and financial institutions must be satisfied that respondent institutions have verified the identify and performed ongoing due diligence on customers having direct access to payable-through accounts, and that they are able to obtain relevant CDD data upon request from respondent institutions. See AML/CFT Law Sec. 64(1)(b)(v), CBC Directive para. 204(viii).

6. **Criterion 13.3** – Credit institutions and financial institutions are clearly prohibited from entering into or continuing correspondent relationships with shell banks and must reach reasoned decisions as to whether potential respondent institutions are shell banks (AML/CFT Law, Sec. 66(1), CBC Directive para. 204(i)). Furthermore, credit institutions and financial institutions must assess and take appropriate measures to ensure that they do not engage in or continue correspondent relationships with other credit institutions or financial institutions that allow their accounts to be used by shell banks (AML/CFT Law Sec. 66(1)(b)).

### **Weighting and Conclusion**

7. Cyprus meets the main requirements for correspondent banking relationships and payable-through accounts. Minor shortcoming remains only in relation to the gathering of information on possible ML/TF investigation or regulatory action against a respondent institution. **R.13 is re-rated as LC.**

## Annex B: Summary of Technical Compliance – Deficiencies underlying the ratings

Recommendations	Rating	Factor(s) underlying the rating <sup>10</sup>
8. Non-profit organisations	PC (MER 2019) PC (FUR1 2021) PC (FUR2 2022) PC (FUR3 2023) <b>PC (FUR4 2025)</b>	<ul style="list-style-type: none"> <li>The identification of subset of organizations falling under the FATF definition and conducted risk assessment remain incomplete as they do not cover non-profit companies (c.8.1(a) - FUR3)</li> <li>There is no specific requirement to periodically reassess the NPOs (c.8.1(d)- FUR1)</li> <li>There has been no review of the adequacy of measures (including laws and regulations) related to non-profit companies (c.8.1(c) - FUR2). Although authorities claim that the review was finalised, the outcomes and results of this process have not been shared (FUR3)</li> <li>Not clear whether any measures have been taken to promote accountability, integrity and public confidence in the administration and management of non-profit companies. (c.8.2(a) – FUR2)</li> <li>Outreach on the potential vulnerabilities of NPOs to terrorist financing abuse and terrorist financing risks, and the measures that NPOs can take to protect themselves against such abuse has to be deepened. (c.8.2(b) – FUR2)</li> <li>There needs to be closer cooperation with the NPO community regarding development of best practices aimed at protecting from TF abuse (c.8.2(c) – FUR2)</li> <li>No additional legislative changes are introduced relating to sanctions for non-compliance with the requirements under R.8 for charities and non-profit companies (c.8.4(b) – FUR2)</li> <li>Training initiatives to enhance knowledge and expertise of Police do not address explicitly misuse of NPOs in the TF context. (c.8.5(b) – FUR4)</li> <li>There is no specific mechanism to ensure that, when there is a TF suspicion involving an NPO, information is shared promptly with competent authorities. (c.8.5(d))</li> <li>There are no points of contact or procedures specific to requests related to NPOs suspected of TF or other forms of terrorist support. (c.8.6)</li> </ul>
13. Correspondent Banking	PC (MER 2019) PC (FUR1 2021) PC (FUR3 2023) <b>LC (FUR4 2025)</b>	<ul style="list-style-type: none"> <li>The AML/CFT Law does not specify that credit institutions or financial institutions must collect information about whether their foreign correspondents have been subject to ML/TF investigations or regulatory actions (c.13.1)</li> </ul>

10. Deficiencies listed are those identified in the MER unless marked as having been identified in a subsequent FUR.

## GLOSSARY OF ACRONYMS

AML/CFT	Anti-money laundering/ Countering the Financing of Terrorism
BO	Beneficial owner
CBC	Central Bank of Cyprus
CDD	Customer due diligence
EBA	European Banking Authority
EEA	European Economic Area
FATF	Financial Action Task Force
FI	Financial institution
FIU	Financial Intelligence Unit
FUR	Follow-up report
LC	Largely compliant
LSI	Law on Societies and Institutions and other related matters
MER	Mutual evaluation report
ML	Money laundering
MoI	Ministry of Interior
NC	Non-compliant
NPO	Non-profit organisation
PC	Partially compliant
PEP	Politically exposed person
R.	Recommendation
TC	Technical compliance
TF	Terrorism financing

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## Anti-money laundering and counter-terrorist financing measures - **Cyprus**

### 4th Enhanced Follow-up Report & Technical Compliance Re-Rating

This report analyses Cyprus's progress in addressing the technical compliance deficiencies identified in the December 2019 assessment of their measures to combat money laundering and terrorist financing and in subsequent follow-up reports.

Follow-up report