



COMMITTEE OF EXPERTS ON THE
EVALUATION OF ANTI-MONEY
LAUNDERING MEASURES AND THE
FINANCING OF TERRORISM
(MONEYVAL)

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Report on Fourth Assessment Visit – *Executive Summary*

Anti-Money Laundering and Combating the
Financing of Terrorism

CYPRUS

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LIST OF ACRONYMS USED

AML/CFT Law	The Prevention and suppression of money laundering and terrorist financing laws of 2007 and 2010
ASDCS	Authority for the Supervision and Development of Cooperative Societies
BS&RD	Banking Supervision and Regulation Division of the CBC
CBA	Cyprus Bar Association
CBC	Central Bank of Cyprus
CC	Criminal Code
CCIs	Cooperative Credit Institutions
CCP	Code of Criminal Procedure
CCSSs	Co-operative Credit and Saving Societies
CDD	Customer Due Diligence
CFT	Combating the financing of terrorism
CSE	Cyprus Stock Exchange
CYSEC	Cyprus Securities and Exchange Commission
D-Accountants	AML Directive to the members of ICPAC
D-Banks	AML Directive to Banks
D-Insurers	AML Directive to life insurers companies and intermediaries
D-Securities	AML Directive to the securities and regulated markets
D-Lawyers	AML Directive to the members of the CBA
D-MTB	Directive for the Regulation of the Provision of Money Transfer Services
DNFBPs	Designated Non-Financial Businesses and Professions
DRCOR	Department of the Registrar of Companies and Official Receiver
EAW	European Arrest Warrant
EC	European Commission
EEA	European Economic Area
ETS	European Treaty Series [since 1.1.2004: CETS = Council of Europe Treaty Series]
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FT	Financing of Terrorism
G-Estate	AML Guidelines to the members of the Cyprus Estate Agents Registration Council
G-Dealers	AML Guidelines to the members of the Cyprus Jewellers Association
IBEs	International Business Enterprises
IBUs	International Banking Units
ICCS	Insurance Companies Control Service
ICPAC	Institute of Chartered Public Accountants of Cyprus
IN	Interpretative Note
IT	Information Technology
LEA	Law Enforcement Agency
MER	Mutual Evaluation Report
MEQ	Mutual Evaluation Questionnaire
MLA	Mutual Legal Assistance
ML	Money Laundering
MLCO	Money Laundering Compliance Officer
ML/FT	Money Laundering / Financing of Terrorism
MOKAS	Unit for Combating Money Laundering (Financial Intelligence Unit of Cyprus)
MTB	Money Transfer Business
NARO	National Asset Recovery Agency

NCCT	Non-cooperative countries and territories
NPO	Non-Profit Organisation
OGBS	Offshore Group of Banking Supervisors
PEP	Politically Exposed Persons
SEC	Cyprus Securities and Exchange Commission
SRO	Self-Regulatory Organisation
STRs	Suspicious transaction reports
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TCSPs	Trust and Company Service Providers
UCITS	Undertakings for Collective Investment in Transferable Securities
UN	United Nations

EXECUTIVE SUMMARY

Background Information

1. This report summarises the major anti-money laundering and counter-terrorist financing measures (AML/CFT) that were in place in Cyprus at the time of the 4th on-site visit (7 to 12 June 2010) and immediately thereafter. It describes and analyses these measures and offers recommendations on how to strengthen certain aspects of the system. The MONEYVAL 4th cycle of assessments is a follow-up round, in which Core and Key (and some other important) FATF Recommendations have been reassessed, as well as all those for which a country received non-compliant (NC) or partially compliant (PC) ratings in its 3rd round MER. This report is not, therefore, a full assessment against the FATF 40 Recommendations and 9 Special Recommendations but is intended to update readers on major issues in the AML/CFT system of Cyprus.

Key findings

- Cyprus has a record of relatively low level of crime. The authorities with whom the evaluation team met explained that the money laundering risks to which the jurisdiction is exposed have not changed since the third round evaluation in 2005. No specific money laundering (ML) /financing of terrorism (FT) risk assessment has been undertaken, however the Advisory Authority has identified a number of risks and vulnerabilities. According to its assessment, the main risks emanate from the international business activities at the layering stage, money laundering activities usually taking place through banking or real estate transactions, while it is considered that risks at the placement stage are being mitigated by legal requirements in place regarding dealers in foreign currency, restrictions on foreign ownership of property and the limited role of cash transactions. Cyprus authorities consider the FT risk to be low. Nonetheless, a comprehensive national risk assessment is essential to adequately identify ML/TF risks and vulnerabilities, as well as the targeted sectors in the country, Cyprus should take appropriate measures to address those risks.
- Money laundering and the financing of terrorism are criminalised largely in line with the FATF standard and the legal framework provides an ability to freeze and confiscate assets in appropriate circumstances, with minor deficiencies relating to the scope of criminalisation of the FT offence. As of the assessment date, there have been no prosecutions or convictions for terrorism financing. A few effectiveness issues remain as regards the implementation of the ML offence when considering the number and type of ML convictions and the volume of confiscation orders achieved. Cyprus needs to take additional measures to ensure a comprehensive system for freezing terrorist assets in application of the United Nations Security Council Resolutions (UNSCR).
- Overall, progress has been made since the third round evaluation by strengthening the preventive regime through the enactment on 13 December 2007 of the Law no. 188(I)/2007 on the Prevention and Suppression of Money Laundering Activities and Terrorist Financing Law (hereinafter the AML/CFT Law), which came into force on the 1st of January 2008. This Act, which was amended in 2010, was also aimed at implementing the transposition in Cyprus legislation of the Third European Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. These requirements were complemented by directives and orders issued by the supervisory authorities to the

respective sector. It was positively noted that the financial and to a lesser extent the DNFBPs sectors show a higher degree of awareness of their responsibilities and obligations under the AML/CFT Law and the relevant Directives.

- The Cyprus supervisory authorities of the financial sector have sufficient powers to supervise compliance with AML/CFT requirements and carry out inspections. They are empowered to apply, as appropriate, a range of sanctions which are proportionate and dissuasive, though it was noted that sanctions imposed in practice have been mainly in the form of warning letters to take corrective action. Overall, the financial sector appeared to be adequately monitored, although it is recommended to step up the number of on-site visits in particular for MTBs, investment firms and regulated markets.
- However, the same cannot be concluded as regards the designated non-financial businesses and professions, as there is insufficient evidence that effective supervision is taking place across the board, and in particular as regards trust and company service providers, real estate, dealers in precious metals and stones as well as lawyers. There is also a clear lack of resources in the supervisory authorities with the result that on-site examinations may not be undertaken appropriately, if and when undertaken.
- Cyprus has effective mechanisms for coordination and co-operation among all domestic AML/CFT stakeholders, including an active Advisory Authority. Cyprus should, however, conduct a review of the effectiveness of the AML/CFT system.
- The legal framework for mutual legal assistance is sound and Cyprus responds to requests for assistance generally in an efficient and effective manner. Further efforts appear necessary to demonstrate that non-MLA related assistance is also similarly effective for all competent authorities.

Legal Systems and Related Institutional Measures

2. The money laundering offence, as set out in Section 4 of the 2007 Prevention and Suppression of Money Laundering and Terrorist Financing Law, is generally compliant with the requirements established under the Vienna and Palermo Conventions, and in accordance with Recommendation 1. Cyprus applies a threshold approach whereby the money laundering offence extends to any type of property regardless of its value that directly or indirectly represents property from a predicate offence that carries one year's imprisonment. Predicate offences include a range of offences in each of the designated categories of offences based on the FATF Methodology and the appropriate ancillary offences to the ML offence are criminalised. Money laundering is punishable by a penalty of either fourteen years' imprisonment or by a pecuniary penalty of up to 500.000 Euros or both of these penalties or respectively, in cases of negligent ML, with five years' imprisonment or a pecuniary penalty of up to 50.000 Euros or both. All but two money laundering prosecutions since the last evaluation have been based on own proceeds money laundering. Since 2005, progress is recorded with final convictions for money laundering successfully obtained in 108 cases against 45 persons, including two stand-alone money laundering prosecutions, one of which was based on a foreign predicate offence. The evaluation team notes however that the number of stand-alone ML and in general the volume of ML convictions appear to be low.

3. The financing of terrorism offence¹, as set out in Sections 4 and 8 of the Law no. 29(III) of 2001, amended by the Law no. 18(III) of 2005, eliminated the deficiency previously noted under the third round, the FT offence covering now Cypriot citizens and nationals. The FT offence extends to any funds as defined in the Terrorist Financing Convention, which is part of the Cyprus domestic legislation. However, the evaluation team considered that the FT offence still does not adequately cover the collection and provision of funds as required by Special Recommendation II, despite the reference made in Section 5 of the AML/CFT Law to the "collection of funds for the financing of persons or organisations associated with terrorism". The sanctions set out in the legislation are imprisonment up to fifteen years or a fine of 1.700.000 Euros, and additionally, confiscation of involved assets may also be applied. These have the potential to be dissuasive, however they have never been tested, as the investigations conducted since 2005 by the authorities did not result in investigations nor convictions in the absence of relevant evidence.
4. Cyprus has a comprehensive, generally robust and well balanced confiscation and provisional measures regime which gives competent authorities the ability to freeze and confiscate assets in appropriate circumstances. While there are only minor deficiencies relating to the scope of criminalisation of the FT offence as noted above which may impact if such cases were to appear in practice, the evaluation team would have expected a greater volume of confiscation orders to be made. Since 2005, the confiscation regime has produced 51 domestic and foreign freezing orders and 14 confiscation orders, of which 9 were made in money laundering cases.
5. The legal framework for implementing the UNSCR has remained unchanged since the third round evaluation and continues to be based upon Decision no. 54.374 issued by the Council of Ministers of the Republic of Cyprus on 4 October 2001². In addition, relevant Community regulations, which are applicable throughout the European Union, are also directly applied in Cyprus. At the time of the assessment, no freezing had occurred under SR. III. Though the authorities' view is that the administrative procedure in place pursuant to the decision and EU regulations is effective, the evaluation team considers that additional measures are necessary to ensure that the requirements of Special Recommendation III are adequately implemented and that a comprehensive and effective system for freezing without delay funds used for terrorist financing is established.
6. According to the 2007 AML/CFT Law, The Unit for Combating Money Laundering (MOKAS) is the competent authority for receiving and analysing information relevant to laundering and terrorist financing offences and for investigating such offences. The organisational structure, the task and responsibilities of MOKAS in connection with its role as a financial intelligence unit have remained basically unchanged since the last evaluation. MOKAS is a multidisciplinary unit established within the structure of the Law Office of the Republic and is composed of officials from the Attorney General's office, the Police, the Customs as well as of its own operational staff, recruited in accordance with the Law Office of the Republic. The Unit undertakes in a professional and timely manner its mission to collect and analyse STRs, and given its law enforcement functions, there is no absolute separation between the analysis and the investigation phase of the process. There have been a number of positive changes that have occurred since the previous evaluation regarding staffing, training and resources of MOKAS and the number of indictments and convictions based on STRs has improved. Overall, MOKAS is adequately performing its role as a key player in the AML/CFT system. While the AML/CFT law does not establish explicitly the dissemination function of the FIU nor the power of MOKAS to request additional information from reporting parties, in practice

¹ Cyprus adopted Law 110(I) 2010 on the Suppression of Terrorism after the visit, however this change occurred after the two month period (i.e. in force: 22 November 2010) following the on-site evaluation visit and cannot be considered for the purpose of this assessment.

² Certain changes to the relevant legal framework were introduced after the visit by provisions of Law 110(I)/2010.

MOKAS does not experience any difficulties in obtaining the information required with a view to carrying out its analysis and investigating functions and where appropriate, MOKAS shares also financial information with the Police or Customs, which may also investigate ML offences under their respective competences. Concerns remain as regards the information reported to MOKAS and the understanding by the reporting entities of their reporting obligations, as well as the important increase in the number of pending cases. It was also noted that some of the directives and guidelines issued by supervisory authorities and MOKAS to financial institutions and other obliged entities on the manner of reporting suffer from minor gaps and would necessitate to be reviewed, harmonised and updated.

Preventive Measures – Financial Institutions

7. The scope of preventive measures in the area of AML/CFT for the financial sector now covers all institutions/professions working in a financial activity as defined by the FATF.
8. The AML/CFT Law does not allow the non-application or the partial application of the obligations in instances where a financial activity is carried out on an occasional or very limited basis and there is little risk of money laundering or of terrorist financing. The AML/CFT law, however, does include references to the applications of exemptions or certain specific low risk measures with respect to institutions, transactions, counterparties that originate from or are based in other EU/EEA Member States, which are derived from the EU regulations and directives, and in addition, with respect to third countries that apply equivalent AML/CFT regulations, through reliance on the EU member States' equivalence list. However, in the absence of an independent and autonomous risk assessment of the countries on the list undertaken by Cyprus which would take into account the specific risks for the Cypriot environment, this generic categorisation is unreasonable.
9. Since the third round evaluation, Cyprus has taken extensive measures to rectify its compliance with customer due diligence requirements, by transposing the latter either into the AML/CFT Law (Section 60) or in the directives issued by the supervisory authorities to the respective industry. The legal framework now covers the requirements set out in Recommendation 5. Section 63 of the AML/CFT Law which transposes the EU Third Directive provisions does not reflect the FATF requirements in that it allows a full exemption from CDD requirements in certain instances as opposed to the application of reduced or simplified CDD measures.
10. In practice, the financial sector have shown increased awareness of the new requirements. However, the evaluation team expressed some concern on the effectiveness of implementation and understanding of certain CDD concepts, such as the risk based approach and the beneficial owner, within the insurance and MTBs sectors. In addition there is a legal uncertainty on third party reliance, arising from discrepancies between the AML/CFT Law and the D-Bank, which may negatively impact on the efficiency of the system. Harmonisation of the directives for the respective industries remains an important element for the effectiveness of the sector. Concerns are also expressed as regards the ability of the industry in fully applying its CDD with regard to legal persons, given the large backlog of updating at the Register of Companies.
11. Politically exposed persons (PEP) are now covered by modified provisions in the AML/CFT law, inspired from the provisions of the Third AML Directive, which were complemented by additional provisions in the directives or orders to the industry. However, a number of issues appear to remain. The PEP requirements in the AML/CFT law do not apply to foreign PEPs resident in Cyprus, while they may be covered under some of the directives, raising a conflicting legal situation. Also, apart from the banks and securities market participants, there are no requirements to obtain senior management approval to continue business relationship when a customer/beneficial owner becomes a PEP or is found to be a PEP during the course of an already established business relationship. The

lack of harmonisation of the directives issued to the industry could result in different levels of application of the PEP related requirements. The authorities should remedy these shortcomings.

12. Financial institution secrecy laws do not appear to inhibit the implementation of the FATF Recommendations.
13. Similarly, the AML/CFT Law and directives cover adequately the requirements of Recommendation 10. The private sector stated that in practice they go beyond the minimum of five years in retaining records, and no sanctions were applied by the supervisory authorities in the period 2007-2010 for shortcomings with the record keeping requirements. The evaluation team recommends however the authorities to remain attentive to the implementation and understanding of the beneficial owner concept within certain parts of the financial sector to ensure that this does not impact on the effective implementation of the record keeping requirements.
14. Special Recommendation VII was implemented in the European Union by regulation (EC) no. 1781/2006 of the European Parliament and of the Council of 15 November 2006 on information on the payer accompanying transfer of funds, in force since 1 January 2007 and which is directly applicable in Cyprus. The supervisory authority has taken measures to monitor the compliance of financial institutions with the applicable provisions and MTBs have been sanctioned 6 times during 2009 for minor shortcomings which have taken the form of requests to take measures within a specified timeframe. Cyprus complies with Special Recommendation VII.
15. The AML/CFT Law refers to the reporting obligation in two distinct provisions. On one hand, Section 69 obliges persons engaged in financial or other business activities to report transactions suspected to be related to ML or TF, and is considered by the authorities to set out the principal reporting obligation. On the other hand, a general obligation for all persons (whether or not they are engaged in financial businesses or other activities as defined in Section 2 of the AML/CFT law) to report transactions is found in Section 27, which also criminalises the failure to report. D-Banks, D-Insurers, D-Securities, D-MTBs, D-Lawyers and G-Estate and G-Dealers make different references to both Sections 27 and 69. The reporting obligation is tied with the definition of ML and FT offences in the AML/CFT law and includes all offences from the list of predicate offences for Recommendation 1. The legal obligation applies regardless of the amount of the suspicious transaction to be reported. Section 69 provides that the obligation to report includes also the attempt to carry out suspicious transactions, while this is not covered in Section 27. The evaluation team thus considers that there is a need to harmonise Section 27 and Section 69 for reporting purposes. As regards effectiveness, the overall number of STRs received shows a continuous rising trend. Eight STRs related to TF and no sector specific guidance and indicators have been provided for obliged entities on reporting FT. Within the financial sector, the STRs continue to be filed by the banking sector, and these mainly relate to their international business, and non resident customers. The other reporting entities still show a significantly low level of reporting. The insurance sector has never reported to MOKAS, while company service and money remittance businesses having started reporting only recently.
16. The safe harbour and tipping off provisions are covered in Section 26 and respectively 48 and 49 of the AML/CFT Law. The AML/CFT law does not prohibit institutions' directors, officers or employees to disclose the fact that a suspicious transaction has been identified and that an STR is in the process of being prepared. Furthermore the tipping off provision appear to explicitly cover only disclosures of information and STRs that have been submitted to MOKAS regarding knowledge or suspicion of ML, as opposed to the wider reporting obligation which covers also FT.
17. Since the third round evaluation, Cyprus has made progress in addressing the previously identified shortcomings in respect of internal control, compliance and audit requirements, by introducing

relevant requirements in the AML/CFT law and specific industry directives. Concerns remain regarding the lack of requirements for the insurance and MTBs sectors to maintain an independent audit function; and further clarifications in the directive applicable to the insurance as regards the applicable requirements. Consequently, there are effectiveness concerns in particular as regards the testing of compliance with procedures, policies and controls where an audit function is not in place, and whether the requirement for independent audit is applied uniformly throughout the financial sector.

18. According to Section 59 of the AML/CFT Law, the Central Bank of Cyprus (CPC), the Authority for the Supervision and Development of Cooperative Societies (ASDCS), the Cyprus Securities and Exchange Commission (CYSEC) and the Insurance Companies Control Service (ICCS) are the supervisory authorities of the banking and financial business of Cyprus. They are responsible for monitoring, supervising and evaluating the implementation of the AML/CFT requirements set out in the AML/CFT Law and sectoral directives or orders. They are empowered to issue directives or orders to persons falling under their respective supervision which are binding and enforceable. All these authorities have the necessary powers enabling them to fulfil their supervisory functions. In application of the provisions of their respective institutional laws those include the right to: undertake off-site and on-site examinations, enter the premises of supervised institutions, and demand and obtain the necessary information to ensure compliance with the AML/CFT law.
19. Furthermore, not all supervisory authorities have adopted a risk based approach to supervision. Although overall the financial sector appeared to be adequately monitored, with the exception of MTBs outlets and investment firms and regulated markets, the evaluation team remained concerned by the noticeable decrease in the past years of the number of on-site visits.
20. The sanctions provided for under the AML/CFT law are applicable to persons engaged in a financial or other activity and thus are not applicable to directors or senior management of a financial institutions. The sanctions available appear to be effective, proportionate and dissuasive. However, sanctions imposed in practice have been mainly in the form of warning letters to take corrective action. The authorities indicated that this is due to the fact that no serious weaknesses have been identified. The overall number of sanctions imposed appears low in proportion to the sector implying a high degree of compliance, a position not necessarily endorsed by the evaluation team.

Preventive Measures – Designated Non-Financial Businesses and Professions (DNFBP)

21. The DNFBPs sector in Cyprus consists of real estate agents, dealers in precious metals and precious stones, the legal profession and the accountancy profession. There are no casinos in Cyprus, or notaries. The activities of trust and company service providers (TCSP) are currently not regulated *per se* although, according to the Cypriot authorities, this activity is normally undertaken by the legal and accountancy professions in the course of their normal professional activities.
22. The AML/CFT law explicitly applies to all of the designated non-financial businesses and professions, which are defined in the FATF Glossary, though some minor clarifications are required to ensure that the accountancy profession and certain trading activities other than dealers in precious stones or metals are adequately covered in the scope of the law. Trust and company service providers are now included in the AML/CFT Law as obliged persons, however the relevant law covering TCSPs has not yet been issued. It must be noted, however, that under the AML/CFT Law, lawyers and accountants are not directly identified as obliged entities for providing such services unless recognised as such under TCSPs.

23. There are now three supervisory authorities responsible to supervise DNFBPs on their implementation and compliance to the AML/CFT Law and directives issued thereunder: the Council of the Institute of Certified Public Accountants of Cyprus (ICPAC) for the accountancy profession; the Council of the Cyprus Bar Association (CBA) for the professional activities of the independent legal professionals and the Unit for Combating Money Laundering (MOKAS) for real estate agents and dealers in precious metals and precious stones.
24. The supervisory authorities for the non-financial sector have likewise issued directives for those they supervise to guide them on the implementation of and compliance with the AML/CFT requirements: AML Directive to the Members of the CBA; AML Directive to the Members of ICPAC; AML Guidelines to the Members of the Cyprus Jewellers Association and AML Guidelines to the Members of the Cyprus Estate Agents Registration Council.
25. As regards CDD and record keeping requirements, progress has been achieved in some areas where shortcomings had been identified in the third round report, though they are offset by other shortcomings identified. Discussions with the industry have demonstrated a low level of awareness on customer due diligence issues and the effective application of the beneficial owner identification process in most sectors of the DNFBPs and of the implementation of a risk based approach principles to identify higher risk customers by DNFBPs in general. The evaluation team has also expressed serious concerns on the effective implementation of the AML/CFT requirements in the real estate and dealers in precious metals and precious stones sectors.
26. Deficiencies noted in respect of Recommendation 6 are also applicable to DNFBPs, with additional gaps given the limited or lack of additional requirements in the Directives or Guidelines.
27. As regards the reporting obligation, though meetings with the sector reflected an improved awareness of the STR regime, and additional efforts were undertaken by the authorities through trainings and consultations, the overall number of STRs sent by the DNFBPs remained low which raises serious concerns about the effectiveness of the implementation of the reporting obligation.
28. Notwithstanding the relatively limited experience of the supervisory bodies of DNFBPs so far, it can be stated that the awareness within service providers has grown, open conversations and consultations, trainings by supervisory authorities have been organized, although more are still needed, supervision has become more effective. Deficiencies previously identified in respect Recommendation 14 are also relevant in this context while there are no adequate requirements covering Recommendation 15 and 21 for real estate agents and dealers in precious stones and precious metals.
29. However, there is a clear lack of resources in some of the supervisory authorities with the result that on-site examinations may not be undertaken appropriately, if and when undertaken. The Institute of Certified Public Accountants has outsourced its audit function and although it appears that this is providing better results, the legal basis for outsourcing could not be established. The CBA has taken some supervisory action however there remain concerns considering the methodology applied, its results and given its lack of resources. The evaluation welcomed that MOKAS has now been designated as the supervisory authority for the real estate and the dealers in precious metals and precious stones, however no supervisory action has been taken in respect of these sectors. There is no indication of sanctions imposed on the DNFBP sector. In the light of the above, the evaluation team recommended that supervisory efforts are clearly stepped up. The resources and capacities of all DNFBPs supervisors should be reviewed to ensure that these are in a position to adequately carry out their supervisory functions, and as appropriate, implement AML/CFT training for staff conducting AML/CFT inspections.

Non-Profit Organisations

30. No changes have been made since the third round evaluation to the legal framework covering non - profit organisations (NPO), the authorities indicating that this area has not been of priority, considering that the FT risks in the sector are assumed to be low. While a review of part of the legal framework appears to have been undertaken in order to strengthen the transparency and improve the registration procedures, further efforts appear to be necessary to ensure a high level of transparency of the whole NPO sector. Thus the implementation of the requirements of Special Recommendation VIII continues to be rather limited.

National and International Co-operation

31. Since the third round evaluation, the level of co-operation between regulators and supervisors, MOKAS, law enforcement authorities and the private sector have been stepped up and a variety of mechanisms are in place to facilitate co-operation and policy development. The Advisory Authority now includes the Association of International Banks as a member. A number of achievements were noted, illustrating the effective coordinating role of the Advisory Authority, and which resulted in concrete changes being implemented. A Memorandum of Understanding (MoU) has been signed between the supervisory authorities of the financial sector (CBC, CYSEC, ICCS and ASDCS) which allows them to cooperate and exchange information. In addition, since October 2009, a special AML/CFT Technical Committee of experts of the supervisory authorities of the financial sector was also established on the basis of this MOU. The relevant institutional and legal framework to comply with the obligation to regularly review the effectiveness of the AML/CFT regime is in place in Cyprus. Additional efforts are required to review the effectiveness of the AML/CFT system as a whole and conduct a national risk assessment to inform the future strategies on the investigation of financial crimes and feed into specific guidance to obliged entities.
32. Cyprus signed and ratified the United Nations Convention against Transnational Organised Crime (Palermo Convention), the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention) and the United Nations Convention for the Suppression of the Financing of Terrorism (Terrorist Financing Convention). Cyprus legislation complies largely with many provisions of these Conventions, however, there remain certain implementation issues in respect of the Palermo and Vienna Conventions. In addition, there remain several shortcomings in respect of the implementation of the UNSCRs 1267 and 1373.
33. The legal framework covering mutual legal assistance is comprehensive and there have been no major changes since the third round evaluation Cyprus can provide a wide range of mutual legal assistance and requests for assistance are generally answered within 6 to 7 months by the Central Authority within the Ministry of Justice and Public Order and within a shorter period of time for requests submitted to MOKAS. The incomplete criminalisation of the terrorist financing offence has the potential to impact on the ability of Cyprus to provide mutual legal assistance in circumstances where dual criminality is required but has not done so in practice.
34. As regards non-MLA related assistance, the information received does not enable to draw any firm conclusions regarding the scope and effectiveness of the supervisory authorities and other law enforcement authorities co-operation with other foreign authorities on AML/CFT matters. As regards FIU-to-FIU co-operation, it is positively noted that the number of requests received and sent has constantly increased. The evaluation team recommended that a system is put in place to monitor the quality and speed of executing international requests for co-operation on matters related to money laundering and the financing of terrorism, which would also enable to address concerns expressed by

other countries in respect of certain limitations that they've experienced in bilateral co-operation related to the exchange of certain sensitive information in certain cases.

Resources and statistics

35. The human, financial and technical resources allocated to competent authorities regarding AML/CFT matters are not satisfactory on the whole, and the situation is particularly worrisome as regards supervisory authorities. CYSEC and ICCS require prompt increase of resources to properly perform their supervisory functions. The resources and capacities of all DNFBPs supervisors need to be reviewed to ensure that they are in a position to adequately supervise their respective sectors, as at the time of the on-site visit, they appeared to be inadequate. Regular AML/CFT training for staff conducting AML/CFT inspections needs to be undertaken for all supervisory authorities. Lastly, the Central Authority did not appear to be provided with sufficient technical and human resources.
36. Cyprus authorities should also take additional measures to gather statistics. Complete statistics were not available *inter alia* on: a) the number of investigations conducted for ML, including on information on how these cases were initiated and the types of crimes they relate to, on the number of investigations terminated and the reasons for termination, and the cases pending; b) on the underlying predicate offence in each case for which a defendant has been acquitted; c) on formal requests for assistance made or received by all supervisors relating to or including AML/CFT including whether the request was granted or refused are not available; d) on the number of mutual legal assistance requests, whether accepted or denied, and response times.

Table 1. Ratings of Compliance with FATF Recommendations

The rating of compliance vis-à-vis the FATF 40 + 9 Recommendations is made according to the four levels of compliance mentioned in the AML/CFT assessment Methodology 2004 (Compliant (C), Largely Compliant (LC), Partially Compliant (PC), Non-Compliant (NC)), or could, in exceptional cases, be marked as not applicable (N/A).

<p>The following table sets out the ratings of Compliance with FATF Recommendations which apply to Cyprus. <i>It includes ratings for FATF Recommendations from the Third Round Evaluation Report that were not considered during the 4th assessment visit. These ratings are set out in italics and shaded.</i></p>		
Forty Recommendations	Rating	Summary of factors underlying rating³
Legal systems		
1. Money laundering offence	LC	<ul style="list-style-type: none"> • The incrimination of TF does not adequately cover provision/collection of funds for an individual terrorist or terrorist organisation, thus TF is not a fully covered as a predicate offence to ML; ; • Effectiveness issues: <ul style="list-style-type: none"> - very low number of stand alone ML convictions; - low volume of ML convictions in the context of the number of convictions for predicate offences; - incomplete statistics and lack of information on the predicate offences to which the ML provisions are being applied makes it difficult to determine that the ML provisions are applied in a fully effective manner; - the level of evidence required to establish the underlying predicate criminality in autonomous prosecutions remains unclear and whether the AML/CFT Law requires the prosecution to prove that a specific predicate offence committed on a specific occasion gave rise to the proceeds which impacts on the ability to use the legislation to its full advantage.
2. <i>Money laundering offence Mental element and corporate liability</i>	<i>Compliant</i>	
3. Confiscation and provisional measures	LC	<ul style="list-style-type: none"> • Deficiencies in criminalisation of the FT (noted in SR. II) may limit the ability to freeze and confiscate. • Effectiveness issues: the volume of confiscation orders obtained, appears low in comparison with the number of convictions for predicate offences.

³ These factors are only required to be set out when the rating is less than Compliant.

Preventive measures		
4. Secrecy laws consistent with the Recommendations	C	
5. Customer due diligence	LC	<ul style="list-style-type: none"> • Certain categories of low-risk businesses can be exempted from CDD and/or EDD instead of requiring simplified or reduced diligence measures • Enhanced customer due diligence for correspondent banking applies only to non-EU countries. • The above, together with the lack of awareness on some elements of the CDD concept and process by some sectors of the financial system mainly concerning the beneficial ownership concept and the risk-based approach for the insurance and MTBs sectors raise concern on the overall effectiveness of the system. • The efficiency of the system may be further negatively impacted by the fact that the industry could be facing problems in fully applying its CDD with regards to legal persons, given the large backlog of updating at the Registrar of Companies.
6. Politically exposed persons	LC	<ul style="list-style-type: none"> • The PEP related requirements in the AML/CFT Law do not apply to foreign PEPs resident in Cyprus, while they may be covered under some of the directives, raising a conflicting legal situation. • No provision in the AML/CFT Law to confirm whether the beneficial owner is a PEP, although this may be covered under the Directives, with the exception of D-Insurers, which raises a conflict of obligations in the sector. • No provision in the AML/CFT Law for senior management approval to continue business relationship where the customer or beneficial owner is subsequently found to be or becomes a PEP, although this is covered for banks and securities market participants, thus raising a conflict of obligations in the sector. • The lack of legal provisions and the divergences in the Directives to the industry present vulnerabilities in implementation which could negatively impact on effectiveness.
7. Correspondent banking	Largely compliant	No guidance regarding payable-through accounts.
8. New technologies and non face-to-face business	Largely compliant	No provisions regarding the misuse of technological developments
9. Third parties and introducers	Compliant	

10. Record keeping	C	
11. Unusual transactions	Largely compliant	<i>The recommendation is satisfied in respect of banks. No guidance requiring non-banks to examine as far as possible the purpose of complex, unusual large transactions or unusual patterns of transactions and to set forth their findings in writing; no guidance to keep such findings available for competent authorities for at least five years.</i>
12. DNFBP – R.5, 6, 8-11 ⁴	PC	<ul style="list-style-type: none"> • Legal framework covering TCSPs is not adopted. • No identification of other activities that trade in goods where payment can be effected in cash above €15,000. • Uncertainty whether the accountancy profession is caught under the law for the activities indicated in the FATF 40. • Lawyers can forgo the verification process upon declaration of introduction by specified persons; beyond what the law allows. • The deficiencies listed in Section 3 regarding PEPs also apply to DNFBPs (ie. the PEP related requirements in the AML/CFT Law do not apply to foreign PEPs resident in Cyprus; there is no requirement to obtain senior management approval to continue business relationship when a customer/beneficial owner becomes a PEP or is found to be a PEP during the course of an already established business relationship) and in addition, G-Estate and G-Dealers do not include any additional complementing provisions related to PEPs. • Lack of adequate requirements to pay special attention to risks arising from new or developing technologies for DNFBPs. • Effectiveness issues: <ul style="list-style-type: none"> - Low level of awareness of the implementation of a risk based approach principles to identify higher risk customers by DNFBPs in general. - Need to enhance awareness on identification requirements and CDD measures in particular on the beneficial owner concept.

⁴ The review of Recommendation 12 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on Recommendations 7, 8, 9 and 11.

13. Suspicious transaction reporting	LC	<ul style="list-style-type: none"> • Need to harmonise Section 27 (failure to report) and Section 69 (obligations of MLCO) for reporting purposes. • Concerns remain on the effective spread of the implementation of the reporting regime.
14. Protection and no tipping-off	LC	<ul style="list-style-type: none"> • The tipping off prohibition does not cover all cases when an STR or related information is reported to MOKAS, as well as cases when a suspicious transaction has been identified and an STR is in the process of being prepared.
15. Internal controls, compliance and audit	LC	<ul style="list-style-type: none"> • There is no explicit requirement to establish an independent audit function for all insurance and MTBs. • Effectiveness concerns, in particular as regards the testing of compliance with procedures, policies and controls where an audit function is not in place, and whether the requirement for independent audit is applied uniformly throughout the financial sector.
16. DNFBP – R.13-15 & 21 ⁵	PC	<ul style="list-style-type: none"> • Need to enhance more awareness on identification and reporting of STRs in some sectors of DNFBPs. • No identification of other activities that trade in goods where payment can be effected in cash above €15,000. • Uncertainty whether the accountancy profession is caught under the law for the activities indicated in the FATF 40. • No law governing TCSPs. • Limited implementation of the STR reporting by DNFBPs. • The tipping off prohibition does not cover all cases when an STR or related information is reported to MOKAS, as well as cases when a suspicious transaction has been identified and an STR is in the process of being prepared. • There are no adequate requirements covering R. 15 and 21 for real estate agents and dealers in precious stones and precious metals.
17. Sanctions	PC	<ul style="list-style-type: none"> • There is legal uncertainty on the applicability of the AML/CFT sanctions to the directors and senior management. • Sanctions imposed are not proportionate to the

⁵ The review of Recommendation 16 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on Recommendation 21.

		<p>sector and mainly in the form of warning letters.</p> <ul style="list-style-type: none"> • No sanctions imposed in the insurance and credit cooperatives sectors.
18. <i>Shell banks</i>	<i>Largely compliant</i>	<i>There are no specific provisions regarding respondent institutions abroad permitting their accounts to be used by shell banks.</i>
19. <i>Other forms of reporting</i>	<i>Compliant</i>	
20. <i>Other DNFBP and secure transaction techniques</i>	<i>Compliant</i>	
21. <i>Special attention for higher risk countries</i>	<i>Largely compliant</i>	<i>No requirement in the G-Investment Brokers, the G-Insurers nor the G-International Businesses to give special attention to business relationships and transactions with persons from/in countries insufficiently applying the FATF Recommendations, to examine such relationships / transactions and set out findings in writing.</i>
22. <i>Foreign branches and subsidiaries</i>	<i>Largely compliant</i>	<i>While few Cyprus financial institutions have foreign branches and subsidiaries, and the CBC monitor Cypriot banks' application of AML standards to branches/subsidiaries, a general requirement is needed for financial institutions to ensure that their foreign branches observe AML/CFT measures consistent with home country requirements.</i>
23. Regulation, supervision and monitoring	LC	<ul style="list-style-type: none"> • CBC should work with licensed MTBs to devise ways to conduct more onsite inspections, especially sub-agents. • Very low number of CYSEC onsite examinations.
24. DNFBP - Regulation, supervision and monitoring	PC	<ul style="list-style-type: none"> • While DNFBPs are now included within the scope of the AML/CFT law, there has been insufficient evidence that effective supervision is currently taking place across the board: <ul style="list-style-type: none"> - Trust and company service providers' activities appear to be supervised by three separate supervisory authorities depending on the profession of the service provider, which could lead to uneven playing fields in monitoring this activity. - No supervisory action on compliance checking has been taken in respect of the real estate and dealers in precious metals and precious stones' sectors. • There is no legislation regulating company service providers and intermediaries. • G-Dealers and D-Accountants lack specific language on imposition of penalties in case of failure to report suspicious activity. • Insufficient resources and capacity for all DNFBP

		<p>supervisors impact on the implementation of their supervisory activities.</p> <ul style="list-style-type: none"> • No indication of sanctions imposed on the DNFBP sectors.
25. Guidelines and Feedback	Largely compliant	<p><i>Although the record on feedback by MOKAS is particularly strong, Guidance Notes for financial institutions and DNFBP do not cover financing of terrorism. Guidelines not issued to domestic trust and company service providers, and some other DNFBP.</i></p>
Institutional and other measures		
26. The FIU	LC	<ul style="list-style-type: none"> • Some of the Directives which cover guidance regarding the manner of reporting suffer from minor gaps, like not describing the contact details of MOKAS in the directive for CYSEC, or missing the instruction on the method of reporting in the ICCS directive, and require fine tuning. • Effectiveness issues.
27. Law enforcement authorities	Largely compliant	<p><i>There are designated Police authorities with most investigative tools but their competencies could usefully be delineated. More focus needs to be placed on the financial aspects of major proceeds-generating crimes as a routine part of the investigation and some re-orientation of law enforcement resources may be needed to achieve this. More focus on laundering by third parties required.</i></p>
28. Powers of competent authorities	Compliant	
29. Supervisors	LC	<ul style="list-style-type: none"> • There is legal uncertainty on the applicability of the AML/CFT sanctions to the directors and senior management . • Very low number of CYSEC onsite examinations.
30. Resources, integrity and training	PC ⁶ (composite rating)	<ul style="list-style-type: none"> • CYSEC and ICCS lack adequate resources to properly perform their supervisory functions. • The resources and capacities of all DNFBPs supervisors do not appear to be adequate to ensure that they are in a position to adequately carry out their supervisory functions. • Regular AML/CFT training for staff conducting AML/CFT inspections needs to be undertaken for all supervisory authorities. • The Central authority does not appear to be provided with sufficient technical and human resources.

⁶ The review of Recommendation 30 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on resources integrity and training of law enforcement authorities and prosecution agencies.

31. National co-operation	C	
32. Statistics ⁷	PC ⁸	<ul style="list-style-type: none"> • It was not fully demonstrated that the Cyprus authorities review the performance of the overall AML/CFT regime on a regular basis, of the ML/TF vulnerabilities and relevant effectiveness factors. • Complete statistics are not available on: <ul style="list-style-type: none"> - the number of investigations conducted for ML, including on information on how these cases were initiated and the types of crime they relate to, the number of investigations terminated and the reasons for termination, and the number of cases pending - the underlying predicate offence in each case for which a defendant has been acquitted. - formal requests for assistance made or received by all supervisors relating to or including AML/CFT, including whether the request was granted or refused are not available. - mutual legal assistance that are made or received, relating to ML, the predicate offences and FT, including the nature of the request, whether it was granted or refused, and the time required to respond. • Statistics maintained by the FIU do not include information on whether the request was granted or refused. • In the absence of case law in relation to prosecutions and convictions in FT cases, it is not demonstrated that the data system would enable to keep additional information (i.e. on how FT cases were initiated, the types of crimes these cases relate to, the number of investigations terminated and the reasons for termination, and the number of cases pending).
33. Legal persons – beneficial owners	Largely compliant	<i>Mainly lawyers subject to the AML/CFT Law are forming and administering companies, but not all institutions (including company service providers) are required to ascertain beneficial owners and controller information by law and guidance. Not all institutions are monitored for implementation.</i>
34. Legal arrangements – beneficial owners	Largely compliant	<i>Mainly lawyers are forming and administering trusts. Lawyers are covered by the AML/CFT Law and international trust companies are subject to guidance</i>

⁷ The review of Recommendation 32 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on Recommendations 38 and 39.

⁸ The review of Recommendation 32 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on statistics kept in respect of SR.IX.

		<i>imposed by the CBC, but other trust service providers are not covered; not all institutions are monitored for implementation</i>
International Co-operation		
35. Conventions ⁹	LC	<ul style="list-style-type: none"> • Cyprus has ratified but not fully implemented the Palermo and Vienna conventions as outlined in the respective Sections of this report.
36. Mutual legal assistance (MLA) ¹⁰	LC	<ul style="list-style-type: none"> • The incomplete criminalisation of the financing of terrorism offence may impact on the ability of Cyprus to provide mutual legal assistance in circumstances when dual criminality is required.
37. Dual criminality	Compliant	
38. MLA on confiscation and freezing	Compliant	
39. Extradition	Compliant	
40. Other forms of co-operation	PC	<ul style="list-style-type: none"> • Information points to certain restrictions in the practice in relation to FIU to FIU co-operation, when certain type of information is requested by foreign authorities. • The adequacy of the legal framework so as to enable a wide range of international co-operation and clear and effective gateways for the exchange of information on AML issues in the context of co-operation with foreign supervisory authorities in respect of DNFBPs is not demonstrated. • As regards supervisory authorities, there is a lack of a direct link into the regulatory framework of the supervisory authorities of their ability to exchange information relating to ML and TF. • The scope and effectiveness of the supervisory authorities (other than the CBC) and other law enforcement authorities' co-operation with foreign authorities on AML/CFT aspects was not demonstrated.
Nine Special Recommendations		
SR.I Implement UN instruments	LC	<ul style="list-style-type: none"> • Several shortcomings remain in respect of the implementation of UNSCR 1267 and 1373, as set out in SR.III.
SR.II Criminalise terrorist financing	LC	<ul style="list-style-type: none"> • In the absence of a complete offence consistent with SR II (i.e. adequate coverage of the

⁹ The review of R.35 has taken into account the analysis and findings in respect of those Recommendations that are analysed in this report. In addition it has also taken into account the findings from the 3rd round report on Recommendations 2, 27, 28, 37, 38, 39 and SR.IX.

¹⁰ The review of Recommendation 36 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on Recommendation 28.

		<p>provision/collection of funds for an individual terrorist or terrorist organisation), the financing of terrorism constitutes an incomplete predicate offence for money laundering;¹¹</p> <ul style="list-style-type: none"> The effectiveness cannot be tested in the absence of prosecution of terrorist financing.
SR.III Freeze and confiscate terrorist assets	PC	<p><u>Implementation of S/RES/1267</u></p> <ul style="list-style-type: none"> The situation envisaged by the UN resolution for the freezing of assets in the event of control or possession of assets by persons acting in the name of or at the direction of designated persons or entities, which is not covered by the EU regulation, does not appear to be covered. Concerns remain as to whether funds and assets can be frozen without delay as required under the UN resolution outside of the financial sector. <p><u>Implementation of S/RES/1373</u></p> <ul style="list-style-type: none"> There is no national mechanism for evaluation of requests to freeze the funds of EU internals (citizens or residents). <p><u>Effective procedures, communication systems, instructions, monitoring of compliance</u></p> <ul style="list-style-type: none"> There is no effective and publicly known procedure for the purpose of considering de-listing. There is no effective national procedure for unfreezing in a timely manner upon verification that the person or entity is not a designated person. There is no specific guidance to financial institutions and other persons or entities on the use and measures to be taken in the case of UN or EU lists of designated persons beyond the need to freeze and then notify the authorities. The incomplete criminalisation of the financing of terrorism offence is potentially an issue when seeking to deal with freezing actions instigated by other countries. No appropriate measures to monitor and sanction effectively compliance with obligations under SR III by persons and entities [other than financial institutions]. In view of uncertainty regarding the receipt by the non-financial sector of the relevant lists and of an effective system for monitoring their compliance, concerns remain regarding effectiveness and efficiency.

¹¹ See earlier footnote regarding Law 110(I) 2010 on the Suppression of Terrorism adopted after the visit.

SR.IV Suspicious transaction reporting	LC	<ul style="list-style-type: none"> Need to harmonise Section 27 (failure to report) and Section 69 (obligations of MLCO) for reporting purposes. Concerns remain on the effective spread of the implementation of the reporting regime.
SR.V International co-operation	LC (composite rating)	<ul style="list-style-type: none"> The incomplete criminalisation of the financing of terrorism offence may impact on the ability of Cyprus to provide mutual legal assistance in circumstances when dual criminality is required. The adequacy of the legal framework so as to enable a wide range of international co-operation and clear and effective gateways for the exchange of information on CFT issues in the context of co-operation with foreign supervisory authorities in respect of DNFBPs is not demonstrated. As regards supervisory authorities, there is a lack of a direct link into the regulatory framework of the supervisory authorities of their ability to exchange information relating TF. Effectiveness not demonstrated.
SR.VI AML requirements for money/value transfer services	<i>Largely compliant</i>	<ul style="list-style-type: none"> <i>No rules regarding PEPs;</i> <i>No provision determining what kind of information regarding transactions should be recorded as a minimum;</i> <i>Infringement of SR.VII-obligations are not sanctionable;</i> <i>No regulation requiring money transfer companies to examine as far as possible the purpose of complex, unusual large transactions or unusual patterns of transactions and to set forth their findings in writing; no regulation to keep such findings available for competent authorities for at least five years;</i> <i>Value transfer business not licensed/registered;</i> <i>No on-site visits conducted;</i> <i>Low risk due to conditions on the licences.</i>
SR.VII Wire transfer rules	C	
SR.VIII Non-profit organisations	PC	<ul style="list-style-type: none"> Lack of comprehensive domestic reviews on the whole NPO sector's potential vulnerabilities to terrorist activities. Outreach is not provided to the NPO sector, particularly with regard to potentially vulnerable NPOs. NPOs which control significant portions of the financial resources of the sector and substantial shares of the sector's international activities, do not appear to be adequately supervised or monitored.

		<ul style="list-style-type: none"> • Lack of adequate requirements regarding the information to be maintained by all NPOs and regarding public availability. • The NPO registration system is not comprehensive nor up to date, the sanctioning regime for non compliance with registration requirements appears to be incomplete and the requirements in place do not ensure that the registers are up to date. • There are no appropriate measures in place to sanction violations of oversight measures or rules by NPOs or persons acting on behalf of NPOs and the effectiveness of the implementation of sanctions is not demonstrated.
<i>SR.IX Cross Border declaration and disclosure</i>	<i>Largely compliant</i>	<i>IX.1 not entirely fulfilled as declaration system appears not to cover bearer negotiable instruments.</i>