

National AML/CFT Strategy

Cyprus

January 2019

Table of Contents

Acronyms	3
Overview	4
Executive Summary	5
I. Policy Initiatives	6
1. Enhance the supervisory processes against money laundering and terrorist financing in the banking sector.	6
2. Upgrade the supervisory processes of the Administrative Service Providers Sector	6
3. Enhance the effectiveness of prosecuting money laundering and terrorist financing offences.....	7
4. Build on the international cooperation procedures and enhance them,.....	7
5. Improve data collection and statistics procedures.....	7
6. Enhance the preventive measures against ML/TF risks in other sectors of the economy,.....	8
7. Increase transparency of corporate entities and legal arrangements	8
8. Enhance Counter Terrorist Financing measures	8
9. Monitor the implementation of the planned anti-corruption measures	9
II. Timeline	10

Acronyms

Administrative Services Law	Law Regulating Companies Providing Administrative Services and Related Matters
Advisory Authority	Advisory Authority for Combating Money Laundering and Terrorist Financing
AML/CFT	anti-money laundering - combating the financing of terrorism
ASPs	Administrative Service Providers
CBA	Cyprus Bar Association
CBC	Central Bank of Cyprus
CySEC	Cyprus Securities and Exchange Commission
DRCOR	Department of the Registrar of Companies and Official Receiver
FI	Financial Institutions
FIU	Financial Intelligence Unit
GRECO	The Group of States against Corruption of the Council of Europe
ICPAC	Institute of Certified Public Accountants of Cyprus
LEAs	Law Enforcement Authorities
MLA	Mutual Legal Assistance
ML/TF	Money Laundering and Terrorist Financing
NPO	Non for Profit Organisations
NRA	National Risk Assessment of Money Laundering and Terrorist Financing
STRs/SARs	Suspicious Transaction Reports/Suspicious Activity Reports
TCSPs	Trust and Company Service Providers
4th EU AML Directive	Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015
5th EU AML Directive	Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018

Overview

The National AML/CFT Strategy of Cyprus has been prepared, based on the findings of Cyprus' first National Risk Assessment of Money Laundering and Terrorist Financing (NRA) ¹, which helped identify, assess and understand the country's money laundering and terrorist financing threats, vulnerabilities and risks. What follows in a concise manner, is the Strategy and AML/CFT stance of Government, competent authorities and other stakeholders, as a response to the NRA findings, which will be used to ensure that policies designed and activities undertaken by all stakeholders, will contribute towards enhancing the jurisdiction's ability to combat money laundering and terrorist financing, and safeguarding the financial stability and integrity of the economy.

The Cypriot Government, the supervisory authorities as well as all other stakeholders are fully committed to implementing this Strategy plan and its related actions, while also ensuring that the legal and regulatory framework is maintained up to date and implemented, in line with the EU framework and the international best practices.

The National AML/CFT Strategy for Cyprus has been endorsed by the Council of Ministers on the 7th of March 2019.

While the NRA identified a number of existing risk mitigating factors, which strengthen resilience to ML/FT threats, it also identified areas of risk where additional mitigating actions by the authorities and other stakeholders need to be introduced. To that effect, a detailed Action Plan has been prepared by the "Advisory Authority for Combating Money Laundering and Terrorist Financing", which entered the implementation phase from the beginning of 2018. The Council of Ministers has endorsed this Action Plan and will be kept informed regularly on its implementation by the Advisory Authority, which will be monitoring the progress achieved.

Risk management is not a static process. The AML/CFT Strategy will be subject to review based on the experience gathered with hindsight during the implementation of activities, advances and amendments to legislation and international best practices, as well as from the findings of future NRA. It is envisaged that authorities will conduct NRA every four years. Also, whenever competent authorities recognise that a significant change to previously assessed risks has taken place or changing circumstances are observed thus dictating an update, the Advisory Authority will take the necessary steps to ensure that the understanding and assessment of risks remains current on a continuous basis.

¹ <http://mof.gov.cy/en/press-office/announcements/national-risk-assessment-of-money-laundering-and-terrorist-financing-risks-cyprus>

Executive Summary

As a result of the National Risk Assessment, Cypriot authorities have set, through the present Strategy paper, the required policy actions for combatting money laundering and terrorist financing and minimising threats and risks

The AML/CFT Strategy implementation is based on **nine** pillars. Relevant actions have entered the implementation phase from the start of 2018 while the complete set of actions under these nine pillars, is planned to be implemented by the end of 2020.

- 1. Minimise the threat and further strengthen supervisory processes in the banking sector.** This pillar involves minimising the ML/FT threat emanating from abroad, as well as enhancing supervisory processes and procedures.
- 2. Upgrade the supervisory processes of the Administrative Service Providers Sector,** based on current experience and vulnerabilities identified.
- 3. Upgrade the structure, training and capacity** of investigators and prosecutors, in order to enhance the effectiveness for prosecuting money laundering and terrorist financing offences and confiscating their illegal proceeds.
- 4. Build on the international cooperation procedures and systems** with the enhancement of the existing centralised handling and monitoring system, at the Ministry of Justice and Public Order, which is the Central Authority for the execution of International Requests for Legal Assistance.
- 5. Improve data collection and statistics procedures** so that threats and vulnerabilities are properly identified, tackled with and monitored.
- 6. Enhance supervisory processes and procedures in other sectors,** namely financial institutions other than banks, the insurance sector, the securities sector, the betting sector and the real estate sector.
- 7. Increase transparency of corporate entities and legal arrangements,** through the development of Ultimate Beneficial Ownership Registers for corporate entities and legal arrangements and by securing the clearing up of non-compliant companies in their filing obligations with the Registrar of Companies.
- 8. Enhance Counter Terrorist Financing measures** through specialised training for all relevant parties, broadening information and data collection and promoting an outreach to the NPO sector.
- 9. Monitor the implementation of the planned anti-corruption measures** which include the GRECO recommendations and the implementation of the Strategic Plan of the Tax Department.

I. Policy Initiatives

1. Minimise the threat and further strengthen supervisory processes in the banking sector.

The sector of the economy that exhibits the highest potential threat for ML/TF is the banking sector and, in particular, international business. As such, the following policies and actions are to be implemented for mitigating these threats and for enhancing the combating ability in the sector.

- a)** Minimise the vulnerability of the sector, by limiting access to the banking system of Cyprus of the so called ‘shell’ or ‘letterbox’ companies with no apparent economic activity. To that effect the Central Bank of Cyprus has included in its directives specific provisions on the basis of circulars issued to supervised entities in June and November 2018.
- b)** Streamline processes of the Central Bank of Cyprus for enhancing the efficiency of the process of enforcing administrative sanctions.
- c)** Further assess and aid AML/CFT knowledge of staff at supervised entities.
- d)** Review and enhance supervisory mode including resources.

2. Upgrade the supervisory processes of the Administrative Service Providers Sector, based on current experience and vulnerabilities identified.

The Administrative Service Providers sector (‘ASPs’), the so called “gate-keepers”, or Trust and Company Service Providers (TCSPs) sector, exhibits a medium-high potential ML/TF threat. This sector comprises lawyers, accountants and other professionals who are regulated and supervised by the Cyprus Bar Association - CBA, the Institute of Certified Public Accountants of Cyprus - ICPAC and the Cyprus Securities and Exchange Commission – CySEC. ASPs provide, amongst other, services for the management and administration of companies and trusts, including the provision of directorships for legal persons, company secretary and trustee services as well as holding share capital of legal persons on behalf of third parties. The complete set of administrative services regulated is stipulated in the Law Regulating Companies Providing Administrative Services and Related Matters of 2012 (Administrative Services Law). One of the strong aspects of the system is that the sector is fully regulated and supervised, with the unauthorised provision of such services constituting a criminal offence. The three supervisory authorities have specialised AML/CFT Units and personnel, and have developed off-site and on-site tools for risk based supervision. At the same time, as the effective AML/CFT function of the sector is so vital for risk minimisation, targeted actions and policies are necessary to further foster the framework and its implementation. Relevant policy initiatives with common themes and applications across the board, involve the following:

- a)** Strengthen the capacity of the regulators in human resources, to the extent that the frequency and intensity of supervision is commensurate to the risks and threats of the sector. To this effect, supervisory authorities have budgeted funds and have commenced the procedures for hiring new personnel for their AML/CFT Units.
- b)** Further foster AML/CFT practices of regulated entities with the introduction of enhanced internal control function, when the size and nature of activities of the obliged entities so dictate, screening tools on customers, additional training and enhanced competencies of personnel and compliance officers on AML/CFT.

c) Publish fines imposed and streamline disciplinary process of the supervisory authorities.

3. Enhance the effectiveness of prosecuting money laundering and terrorist financing offences and confiscating their illegal proceeds by upgrading the structure, training and capacity of investigators and prosecutors.

a) Within the framework of reorganisation that the Police is undergoing, emphasis should be placed on the organisation, specialisation, resources and training of the economic crime investigation capabilities of the Police, so that its capacity in the field is enhanced.

b) Emphasis should be placed by the LEAs on 'standalone' and 'third party laundering' with respect to offences committed domestically or in foreign jurisdictions, with ML offences taking place in Cyprus. Special attention should also be placed in conducting 'parallel' financial investigations alongside or in the context to criminal investigations on predicate offences, so that the prize of criminal activity is effectively identified and confiscated.

c) Taking into consideration the complexity of financial crime, money laundering and terrorist financing cases, prosecutors, Law Enforcement Authorities as well as the judiciary, should receive additional training focused on such topics as well as on the freezing and confiscation of illicit profits.

d) The capacity of the FIU should be fostered through human resources additions and IT system utilisation, leading to enhanced analysis of suspicious transactions with an expected bigger number of SARs/STRs disseminated to the LEA for investigation. Emphasis, should also be placed in enhancing the capabilities of the Department of Customs and Excise in investigating ML offences and in cash monitoring procedures at borders.

4. Build on the international cooperation procedures and practices and enhance them, for an effective and efficient execution of Mutual Legal Assistance Requests.

The Ministry of Justice and Public Order, should enhance the procedures and monitoring of Mutual Legal Assistance requests from foreign counterparts, so that these are executed in the most timely and efficient manner. A dedicated Unit of permanent standing, has already been created within the Police, tasked with executing all MLA requests forwarded by the Central Authority to the Police for execution. This work should be completed and new procedures and processes set in place.

5. Improve data collection and statistics procedures

Through the work that was performed during the preparation of the National Risk Assessment, deficiencies and gaps were identified in data collection of the relevant systems and procedures with respect to the Police and the competent supervisory authorities. Such deficiencies should be addressed so that LEAs, supervisory authorities and policy makers are better equipped in analysing and dealing with ML/FT threats and vulnerabilities.

6. Enhance the supervisory processes and procedures in other sectors, namely, financial institutions which are licensed and supervised by the Central Bank of Cyprus, the insurance sector, the securities sector, the betting sector and the real estate sector.

The relevant strategic initiatives are stipulated below:

a) The 'Other Financial Institutions Sector' comprises mainly of payment and e-money institutions. Specifically, it comprises of entities engaged in money remittances (money transfer businesses), issuing and acquiring of cards and card transactions, the operation of payment accounts, electronic money services (E-money) and the buying/selling foreign currency for immediate delivery ("the Bureau de Change offices"). Though the sector's size in terms of the number of participants and volume and value of business transacted was at the time of the NRA identified as small, the Central Bank of Cyprus recognised the specificities of the sector in relation to ML/TF risks. The supervisor will enhance processes by means of the issuance of directives addressed to such businesses and enhance outreach to the industry.

b) Additional preventive measures for minimising risks, relate to the Insurance Sector, the Securities Sector, the Betting Sector and the Real Estate Sector. These comprise the setting of new regulations and procedures when the sector is newly regulated as in the case of the Betting Sector or fostering existing ones as in the case of the Insurance and Securities Sectors, which would entail additional monitoring or further calibrating the risk based supervision. With respect to the Real Estate Sector, further actions are to be elaborated by the newly appointed supervisory authority, the Council of Real Estate agents, while relevant measures for real estate transactions in general, are to be discussed and put forward by the Advisory Authority.

7. Increase transparency of corporate entities and legal arrangements

Even though no issues have arisen with respect to the identification of beneficial ownership information for legal entities and arrangements in Cyprus by competent authorities, the obligation to develop beneficial ownership registers for legal entities and arrangements under the 4th and 5th EU AML/CFT Directives, is expected to expedite the availability of such information to the competent supervisory authorities, law enforcement agencies and obliged entities. To that effect, the Department of the Registrar of Companies and Official Receiver as well as the Cyprus Securities and Exchange Commission will be completing the development of the relevant registries and subsequently operate them. At the same time The Tax Department in communication with the Ministry of Finance and the DRCOR, is to expedite procedures, so that the Registry is cleared from dormant and non-compliant companies.

8. Enhance Counter Terrorist Financing measures

Terrorist Financing does not seem to pose significant threats to the system, based on evidence from intelligence or mutual legal assistance requests. However, since Cyprus is offering business and financial services to foreigners, Cypriot authorities remain vigilant and will be taking additional measures that would enhance the preventive deterrence of the country and its combating ability in the field. Relevant policies relate to:

a) Additional specialised training to be conducted for Officers of the FIU, LEAs', supervisory authorities' and obliged entities' personnel, so that the responsible bodies can

better understand and mitigate FT risks. Data collection and its usage by the Police on this issue will be looked into for better utilisation, while supervisory authorities continue to pay special attention to the ongoing compliance by obliged entities with EU and UN sanctions' regulations.

b) With respect to the NPO sector, further measures should be implemented to identify the riskier areas and, through an outreach to the sector, inform and train these organisations.

9. Monitor the implementation of the planned anti-corruption measures

Targeted preventive measures that are included in the GRECO 4th Round Evaluation Report, should be implemented with the lead of the Law Office of the Republic and the Supreme Court. The Internal Affairs Service of the Police has already been established. At the same time, the Strategic Plan of the Tax Department should continue to be implemented with a view to increase tax compliance and minimise the undeclared economy.

II. Timeline

The AML/CFT Policy initiatives of the stakeholders are translated to more than one hundred distinct and codified actions. The table below, which groups the various actions based on the policy initiatives analysed above, set the timeline for the expected completion of all actions of the group, while the dotted timeline refers to ongoing processes such as training. In the case of anti-corruption measures, it is noted that the Strategic Action Plan of the Tax Department extends up until the end of 2021.

Strategic Initiatives	2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Minimise threats in the banking sector	■	■	■					
2. Upgrade the preventive measures in the DNFBP sector	■	■	■					
3. Augment prosecuting ML offences	■	■	■	■				
4. Enhance International Cooperation procedures	■	■						
5. Improve data collection and statistics	■	■						
6. Strengthen preventive measures in various sectors	■	■	■	■				
7. Enhance transparency of legal entities and arrangements	■	■	■	■	■			
8. Apply further CFT measures	■	■						
9. Implement planned anti-corruption measures	■	■	■	■				