

Economics Alert

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Key Findings of Money Laundering Review in Cyprus



The Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (“MONEYVAL”) and Deloitte Financial Advisory S.r.l. (“Deloitte Italy”) were appointed to conduct an extensive investigation in order to provide a review on whether the banking sector in Cyprus implements effectively the Customer Due Diligence procedures (the “CDD”) according to the requirements imposed by the Cypriot legal framework and in line with Financial Action Task Force (“FATF”) and European Union standards. Per both assessors’ reports, the clientele of the banking sector in Cyprus is mainly comprised of international businesses which have features such as complex corporate structures, cross-border transactions with counterparties located in various jurisdictions, the use of client accounts and the use of cash-collateralized loans.

Deloitte Italy examined 570.000 transactions out of which 10.173 showed-up as requiring further investigation. Upon further investigation, only 536 instances warranted closer monitoring the result of which was quite remarkable as only 29 incidents appeared to be “potentially” suspicious and as such have been referred to the Central Bank of Cyprus to determine whether they must be reported to the Cypriot Financial Intelligence Unit (the “MOKAS”).

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In its review, the MONEYVAL team chose to cover the big commercial banks of Cypriot ownership along with branches and foreign banks' subsidiaries originating from Greece, Ukraine, Russia and Lebanon, being 13 out of the 41 banks operating on the island. The assessment team's sample set covered approximately 71% of the deposits and 76% of the loans comprising the banks reviewed.

The MONEYVAL team acknowledged that "the assessment is unique as no other jurisdiction has ever submitted to such an exceptional and focused evaluation covering the effectiveness of only one part of its system for combating money laundering and terrorism financing. A much larger sample of banks was interviewed than is possible in a regular anti-money laundering and combating financing of terrorism evaluation".

MONEYVAL's findings in relation to the allocation of loans and deposits seem to indicate that the Top 100 borrowers and depositors are primarily legal entities having Cyprus as their country of residence. It is worthy to note that MONEYVAL confirmed that procedures conducted by banks in Cyprus are in line with the relevant Directive of the Central Bank of Cyprus, and that they thoroughly identify their ultimate customers in all cases and do not operate anonymous or numbered accounts.

In the case of international business, which is primarily comprised of corporate entities, all required supporting documentation is obtained to confirm the identification of (i) the customer, (ii) the directors and (iii) the ultimate beneficial owners. Further, MONEYVAL confirmed that "Although some of these structures are complex and can involve legal entities in two or more jurisdictions, there was a consistency in the responses of the banks that they are required to, and do in practice, identify all relevant parties through all layers of these structures".

MONEYVAL pointed out that the enhanced due diligence conducted by Cypriot banks in obtaining passports and verifying addresses of ultimate beneficial owners, including in cases whereby some of the said banks which maintain business with persons politically exposed (the "PEPs"), the lower requirement adopted in the Cyprus legislation of identifying the Ultimate Beneficial Owner ("UBO") at a 10% ownership level is more detailed and comprehensive than the EU standards whose respective limit is at a 25% participation. This was further confirmed by Deloitte Italy as well.

Review by Deloitte Italy

On the other hand, Deloitte Italy selected a sample of the six largest banks established and operating in Cyprus at the time, being: Bank of Cyprus Public Co. Ltd, Cyprus Popular Bank Public Co Ltd, Hellenic Bank Public Co Ltd, Eurobank Cyprus Ltd, Alpha Bank Cyprus Ltd and Russian Commercial Bank (Cyprus) Ltd.

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As regards to the assessment of compliance with the CDD requirements of the legal framework, the report of Deloitte Italy strongly emphasizes that in the Cypriot legislative system “... these requirements are more detailed, and to a certain extent more prescriptive, than in many other jurisdictions, including other European Union Member States that similarly have implemented the requirements of the Third Money Laundering Directive”.

Overall Findings

During their investigation, both MONEYVAL and Deloitte Italy identified some weaknesses and subsequently made recommendations and/or suggestions in order to ensure that the Cypriot banking system takes targeted and expedited action.

But as the Deloitte Italy report divulges “no institution can be expected to have a 100% perfect compliance record. In fact, on the basis of our experience, it is uncommon to find institutions in any jurisdiction that achieve 100% compliance across all customers, especially in jurisdictions where the AML legal framework has been enhanced relatively recently”.

The gratifying end result is that according to Deloitte Italy: “... the recognition by the Cypriot authorities of the unique risks in the jurisdiction, and the efforts to tailor requirements to mitigate those risks” as well as the fact that it “... appears to indicate a generally solid level of compliance across the six banks ...”. At the same time, the assessors of MONEYVAL found that “... banks have systems in place to monitor high risk business on an ongoing basis and measures to reject some high risk business and closing of existing accounts.

These measures have been implemented in practice to reject potential customers before the formal account – opening stage.” Subsequently the MONEYVAL report stresses that “in general, the banks interviewed demonstrated high standards of knowledge and experience of AML/CFT issues, an intelligent awareness of the reputational risks they face and a broad commitment to implementing the CDD requirements set out in the law and in secondary regulations issued by the Central Bank of Cyprus”.

As this review indicates, the Cypriot legal framework has been found to be in line with the relevant EU Directives regarding Anti-Money Laundering Measures and the Financing of Terrorism,

while banks established and operating in Cyprus are performing their customer due diligence procedures in compliance with such relevant legislation.

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