

# Moneyval: Fifth Round Evaluation Report on Cyprus



**András Csúri**

## News

On 12 February 2020, MONEYVAL published its [fifth round evaluation report](#) on the effectiveness of the Cypriot anti-money laundering (AML) and countering the financing of terrorism (CFT) regime and its level of compliance with FATF Recommendations. MONEYVAL calls on the Cypriot authorities to take a more “aggressive” approach to combating ML of criminal proceeds obtained outside Cyprus and to adopt a more proactive stance on freezing and confiscating foreign proceeds. MONEYVAL states that Cyprus understands the ML and terrorist financing risks it faces to a large extent; however, the understanding of TF risk is less comprehensive.

As an international financial centre, Cyprus is primarily exposed to external ML threats, as non-residents may seek to transfer criminal proceeds to or through Cyprus, particularly through the Cypriot banking system. They may also seek to use trust and company service providers, known in Cyprus as administrative service providers (ASPs), to facilitate their aims. Although the terrorism threat is considered low in Cyprus, the authorities rate the terrorist financing (TF) risk as medium, due to the fact that the country is an international financial centre and due to its proximity to conflict areas.

The elements of the Cypriot ML and CFT regime that are functioning include an understanding of the risks involved, a good level of domestic cooperation and coordination, support from the FIU to competent authorities, and timely and constructive assistance to other countries. Among the areas that require major improvements, the report highlights that ML from criminal proceeds generated outside of Cyprus, which pose the highest threat to the Cypriot financial system, need to be sufficiently pursued. Moreover, the competent authorities have not been very proactive in freezing and confiscating foreign criminal proceeds at their own initiative, although they have been instrumental in assisting other countries in doing so.

The country has a developed company formation and administration sector. As regards legal persons, no formal risk assessment has yet taken place, which reduces the authorities’ ability to implement better targeted mitigating measures to ensure their transparency.

Weaknesses also exist in the implementation of preventive measures by the trust and corporate services sector as a whole. This has major implications for the availability of beneficial ownership information on legal persons and arrangements registered in Cyprus as well as for the reporting of suspicious transactions.

While significant strides have been made by Cyprus to implement a comprehensive supervisory framework for trust and corporate services providers, MONEYVAL calls for further major improvements. In particular, trust and corporate service providers have no uniform level of understanding the risks involved in evading targeted financial sanctions for TF and the proliferation of weapons of mass destruction. Given their role as gatekeepers, some service providers may not always be in a position to identify individuals or entities

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seeking to conceal their identity behind complex structures in order to evade sanctions, constituting a significant vulnerability.

The report states that the risk for the real estate sector has increased exponentially since it has become the preferred choice of investment by which to acquire citizenship under the Cyprus Investment Programme. Therefore, a comprehensive ML and TF risk assessment of the programme is necessary, together with significant enhancement of supervision of the real estate sector, in addition to the introduction of measures to increase the level of compliance of real estate agents with preventive measures.

On the positive side, several measures have been deployed to mitigate some of the main risks effectively. There is a good level of domestic cooperation and coordination between the competent authorities, both on policy issues and at the operational level. The banking sector has become more effective in mitigating risks, which is largely due to the increasingly sound supervisory practices of the Central Bank of Cyprus. The report also positively notes that, where there is terrorism investigation/prosecution, the authorities also investigate the financial aspects and that a number of TF investigations have been carried out and steps taken to increase awareness of terrorist financing risks.

The FIU is well able to support the operational needs of competent authorities through its analysis and dissemination functions. Cyprus has developed mechanisms that are capable of delivering constructive and timely assistance to other countries, both on a formal and an informal basis.

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