



PANA

Committee of Inquiry into Money laundering, tax avoidance and tax evasion

Delegation to Nicosia (Cyprus)

7 July 2017



MISSION REPORT





PROGRAMME

Friday 7 July

09h30 -11h30

Meeting with

- **Harris Georgiades**, Minister of Finance (DISY)
- **Yiorgos Lakkotrypīs**, Minister of Energy, Commerce, Industry and Tourism (responsible for the register of companies) (Independent, previously DIKO)
- **Kypros Kyprianou**, Acting Permanent Secretary, Ministry of Interior (DISY)

Other representatives from the Ministry of Finance

- **Christos Patsalides**, Permanent Secretary
- **Yiannis Tsangaris**, Tax Commissioner
- **George Panteli**, Director of Economic Research and EU Affairs Department

12h00 - 12h45

Meeting with **Demetra Kalogerou**, Chairwoman of the Cyprus Securities and Exchange Commission

14h45 -15h45

Meeting with **Eva Rossidou-Papakyriacou**, Head of the Cyprus Unit for Combating Money Laundering (MOKAS)

15h45 -16h45

Meeting with

➤ the Association of Cyprus Banks (ACB)

Marios Skandalis, Director Group Compliance, Bank of Cyprus

Niki Charilaou, Manager Financial Crime Compliance Department, Bank of Cyprus

Matheos Charalambides, Head of AML Department, Hellenic Bank

Elena Frixou, Senior Officer, Association of Cyprus Banks



➤ **the Association of International Banks (AIB Cyprus)**

Ziad El Morr, Vice President of the AIB Cyprus, Country Manager at BLOM Bank

George Abi Chamoun, Director at the AIB Cyprus, General Manager at Bank Med

Samer Boulos, Director at the AIB Cyprus, General Manager at Ban

16h45 - 17h30

Meeting with the Cyprus Bar Association (CBA)

- **Andreas Michaelides**, President of the Limassol Bar Association, Member of the Council of the CBA and Member of the ALM Committee
- **Thanasis Korfiotis**, Member of the Council of the CBA and Member of the AML Committee
- **Koulia Vakis**, Chief Executive of the CBA
- **Angelika Theofanous**, Supervisory Control Officer, Department of Supervision and Compliance (AML Department) of the CBA



➤ LIST OF PARTICIPANTS

MEMBERS

Werner Langen, Chair	PPE
Frank Engel	PPE
Angel Dzhambazki	ECR
Maité Pagazaurtundua	ALDE
Takis Hadjigeorgiou	GUE
Jordi Solé	Verts/ ALE
Barbara Kappel	ENF

ACCOMPANYING MEMBERS

Lefteris Christoforou	PPE
Cătălin Sorin Ivan	S&D
Costas Mavrides	S&D



➤ KEY MESSAGES

Key Messages

- The banking crisis in 2014 was the turning point in Cyprus. Since then, controls by the ECB and governmental measures lead to more effectiveness.
- Despite not being an OECD Member Cyprus closely follows the developments in the area of international taxation and is committed to implement the BEPS recommendations
- Cyprus is concerned about tax uncertainty and therefore opposes public CBCR and public UBO registers, especially for trusts
- Cyprus does not favor the EU proposals on CC(C)TB as it considers they are not promoting competitiveness and would undermine growth and job creation
- intermediaries are regulated by the Cyprus Bar Association, the Institute of Certified Public Accountants of Cyprus ICPAC) and the Cyprus Securities and Exchange Commission (CySEC).
- The Ministry of Energy, Commerce, Industry and Tourism maintains a database for companies incorporated in Cyprus, as well as for foreign branches.
- Cypriot citizenship is granted to foreign entrepreneurs, through the Citizenship by investment programme for those that have invested in Cyprus at least €2 million in the sectors of real estate, Cypriot companies or alternative investment funds for investments made exclusively in the Republic of Cyprus and investments that meet the criteria of the Scheme or areas approved by the Finance Minister.
- In the aftermath of the Panama Papers, CySEC issued a Circular, requiring regulated entities to investigate their records, identify and report any potential relationship of any of their clients with Mossack Fonseca and/or persons mentioned in the Panama Papers.
- In 2016 MOKAS received in total 89 STR/SAR reports related to the Panama Papers, the majority of which were submitted by banks.
- Most of the companies contained in the Panama Papers were registered in foreign jurisdictions.
- Tax evasion is recognised as predicated offence since 2013.



Meeting with the Minister of Finance, Harris Georgiades, Minister of Energy, Commerce, Industry and Tourism, Yiorgos Lakkotrypris, Acting Permanent Secretary of the Ministry of Interior, Kypros Kyprianou and with other representatives from the Ministry of Finance - key messages:

- Harris Georgiades stressed that despite the fact that Cyprus is not an OECD member, the country has committed to the agreement on the BEPS project. Cyprus has also signed the OECD Multilateral Competent Authority Agreement for CbCR.
- On the development of Common Reporting Standard (CRS) Cyprus favours transparency and will start the automatic exchange of financial information early 2018. On a European level, Cyprus transposed the Directive on administrative cooperation on taxation (DAC 2) in April 2016 and DAC 3 in June 2017. DAC 4 and the legal framework incorporating the 4th AMLD are expected to be transposed by September 2017.
- Regarding the Citizenship by investment programme, he stated that 1223 visas were issued since its beginning.
- Minister Georgiades expressed Cyprus's opposition on issues related to the exposure of corporate information, such as the public CbCR, and public UBO registers especially for trusts.
- Cyprus also opposes the proposals on a Common Corporate Tax Base (CCTB) as well as on the Common Consolidated Corporate Tax Base (CCCTB) as it considers that these proposals are not promoting the competitiveness and attractiveness of the EU and its MS and would undermine growth and job creation in Europe.
- He stressed that Cyprus has been strengthening the framework against money laundering and terrorist financing both in terms of legislation and in the practical implementation. After the Panama Papers revelations, Cyprus authorities contacted 700 taxpayers to submit details regarding their relationship with different foreign entities. For 220 taxpayers, they requested additional details.
- He mentioned that the country has successfully completed the 4th round of evaluation by the Moneyval Committee and is expected to embark on the 5th round of evaluations in 2018. Georgiades stressed that Cyprus has adopted all the recommendations of Moneyval with regard to Moneyval's Special assessment issued in 2013 on the evaluation of the AML and terrorist financing measures of the Cypriot banking system.
- Regarding intermediaries, he highlighted that with a law of 2012, only regulated persons on AML/CFT issues are able to provide administrative services to companies. They are regulated by the Cyprus Bar Association, the Institute of Certified Public Accountants of Cyprus and the Cyprus Securities and Exchange Commission.
- Minister Georgiades explained that the offer of administrative services without legitimate licencing constitutes a criminal offence and is punishable with up to 5 years of imprisonment and fines up to € 1 million.
- Minister of Energy, Commerce, Industry and Tourism, Yiorgos Lakkotrypris explained the role and measures taken by the Department of Registrar of Companies and Official



Receiver (DRCOR), which maintains a database for companies incorporated in Cyprus, as well as foreign branches and was restructured and reorganised in April 2014.

- Minister Lakkotrypis explained that DRCOR is taking all necessary measures to ensure compliance with the filling of annual returns and availability of up-to-date ownership and identity information. More than 59000 non-active and non-compliant companies have been struck off the register. Compliance is now 81% of the total number of registered companies. Since June 2014 DRCOR provides free online access to basic company information through its website.
- He furthermore provided information regarding companies' incorporation: according to the current Cyprus legal framework only practicing solicitors can incorporate companies. As a consequence, ownership information may be available with the particular service providers, who apply the customer due diligence processes.
- Company representatives can only be lawyers, accountants and licensed company service providers, who are supervised by their respective regulatory entities and are subject to obligations under AML/CFT legislation. In this regard, they must carry out customer due diligence and report any suspicious transactions.
- He stressed that the country was among the first 10 countries to participate in the BRIS (Business Registers Interconnection System) program and connect to the European e-Justice Portal. The BRIS system is a single access point for company information in the EU, by which everyone will be able to look for basic company information (company name, type of legal entity, company's registered office address, registration number and country of registration) via a multilingual search service free of charge.
- Kypros Kyprianou, the permanent Secretary of the Ministry of Interior focused on the 'Citizenship by investment Programme', granting the Cypriot citizenship to non-Cypriot investors (Cypriot Foreign Investors' Citizenship Scheme), which was first introduced in 2007. The Scheme is a governmental policy, formulated by the government solely without any implication of third parties. It is exclusively administered by the State services.
- He explained that the Citizenship Scheme was used in 2013 as a tool in the efforts of the Cypriot government to overcome the severe economic crisis. In 2016, after Cyprus had successfully completed its Economic Adjustment Program, the Scheme was amended, in order to further encourage foreign direct investments and to attract high net worth individuals to settle and do business in Cyprus.
- More than 1200 investments were accepted in the framework of the programme.
- Cypriot citizenship is granted to foreign entrepreneurs, who have invested in Cyprus at least € 2 million in the following economic sectors: real estate, Cypriot companies or alternative investment funds of investments made exclusively in the Republic of Cyprus, investments that meet the criteria of the Scheme or areas approved by the Minister of Finance.
- He justified the government's focus on real estate and local-functioning companies as an effort to resolve the issue of non-performing loans, since these are the sectors of



the Cypriot economy that present the highest exposure to the banks. Moreover, this emphasis was expected to increase the number of employment positions.

- Kyprianou explained that in each case, the investor is additionally required to have a permanent home property worth at least € 500.000 clean criminal record and not to be included in the list of persons whose property is ordered to be frozen within the boundaries of the EU or any other sanctions list. Finally, the policy demands the applicant to hold a residence permit in Cyprus for at least a 6-month period, prior to his/her naturalization as Cypriot citizen.
- The Scheme provides for the grant of the Cypriot citizenship to the members of the investor's immediate family.
- He mentioned the specific control procedures that take place apart from the Scheme: all applications go through a thorough background check by the Interpol office of the police of Cyprus. In cases of suspicion for implications in financial crime activities, the case is sent for evaluation to the Cypriot Unit for Combating Money Laundering (MOKAS), while, if the investigation results to concerns regarding national security, the application is also evaluated by the Central Intelligence Agency of Cyprus.
- Kyprianou highlighted that according to the Scheme, all financial transactions must go through Cypriot banks.
- Finally, he stressed that the only competent authority to decide upon rejection or approval of each application is the Council of Ministers, the highest government body of the Republic of Cyprus.
- Tax Commissioner Yiannis Tsangaris informed that Cyprus kept contact with the German state of North Rhine-Westphalia, and the obtained the database in order to collect information about Cypriot citizens, but they haven't got any feedback yet. Cypriot authorities do not plan to contact the German authorities to receive the Panama Papers information (related to Cyprus) they recently acquired.
- George Panteli, Director of the Economic Research and EU Affairs Department of the Ministry of Finance, stated the country will start the automatic exchange of information proceedings in early 2018.
- MEPS asked about the Citizenship by investment programme and why it attracted so many Russian investors (more than 50%) and how the CY authorities were sure that the money invested is not related to money laundering. Also they inquired how much money Cyprus got through this programme. In reply the Finance Minister declared that the interest of other nationalities is increasing (e.g. Chinese and Lebanese). The CY authorities scrutinise the money that comes in and apply the same scrutiny to all (going through the usual checks, at bank level etc.). Cyprus received € 4.7 billion through the citizenship by investment programme.
- Members also inquired about the difficulties in implementation of the legislation, and whether this is due to a lack of tools. Minister Georgiadis replied that the tools were ok but that it was important to improve how they are utilised. NB Cyprus had not yet implemented the 4th AML Directive (deadline expired 26 June). Furthermore Members asked how the Panama papers impacted the Cypriot economy and how many companies were under investigation.



- As for the impact of the Panama Papers on the Cypriot economy, Georgiades stated as an example that the Bank of Cyprus stopped 90% of relationships with intermediaries, because of tighter scrutiny.
- Members also inquired about the opinion of Cyprus on the pending Commission proposals (e.g. on intermediaries and CBCR); they also asked questions about the 12, 5% corporate tax rate (rather low, could be an issue for unfair tax competition).
- In reply the Ministers stated that Cyprus believes in low taxation and that they have a balanced budget without raising taxes. He agrees that the 12, 5% tax rate perhaps may be perceived as low but that they have a law on dividend that makes the effective corporate tax rate 24%. On the pending Commission proposals Mr Panteli replied that they do not want to deviate from the OECD level and that they would start the automatic exchange of information early 2018, however on public disclosure they consider it goes beyond OECD and is perceived as problematic.

Meeting with the Chairwoman of the Cyprus Securities and Exchange Commission, Demetra Kalogerou - key messages:

- Demetra Kalogerou informed that CySEC closely monitors the compliance and obligations of regulated financial entities in relation to AML. With the introduction of the Administrative Service Providers Law (ASP Law) in December 2012, only licensed entities are allowed to provide administrative services. CySEC is responsible for the licencing and supervision of all companies holding a licence under this law, with the exception of lawyers and accountants. They respectively remain under the supervision of the Cyprus Bar Association and the Institute of Certified Public Accountants of Cyprus (ICPAC).
- CySEC's supervisory remit includes administrative service providers, collective investment schemes and fund managers. She stressed that CySEC controls if the law is respected, without having any specific mandate on taxes.
- She pointed out that they currently regulate 605 entities, which have to follow AML rules (including 215 Investment Firms licenced under the MIFID regime).
- According to CySEC's policy, entities and market segments that pose the greatest risks to the market will be subject to closest scrutiny.
- She informed that supervised entities are subjected to both on-site inspections and desk-top reviews on an annual basis.
- Following the Panama Papers revelations, CySEC issued two Circulars (12/04/2016 and 19/05/2016).
- The first requires entities to investigate their records, identify and report to CySEC any potential relationship of any of their clients with Mossfon and/or persons mentioned in the Panama Papers.
- The second Circular informed entities about MOKAS's Directive in relation to their reporting obligations and their obligations under the AML/CFT framework, in cases of identification of any business relationship with persons included in the Panama Papers.



- CySEC collected the data from all regulated entities and forwarded it to the Cyprus Tax Department.
- In the aftermath of the results of the onsite and offsite inspections conducted, CySEC's Council decided to call certain regulated entities for representations for possible non-compliance with the AML Law and CySEC's Directive. The representations will be submitted to the CySEC's Council for a final decision.
- Asked by MEPs whether CySEC is an independent body, Kalogerou replied they are independent and they do not report to the Minister of Finance. Asked about her views on the new Commission proposal on intermediaries (especially in relation to lawyers a sector where independent supervision is often lacking) she stated they are cooperating and the lawyers and accountants have procedures in place.
- Asked by the Members on who has been sanctioned or imprisoned, in relation to the Panama Papers, she stated that no penalties have been imposed so far, just 27 warnings for ASPs were given; 7 of the 27 are now with the Board for further decision.
- Asked about whether she sees a pattern of offshore constructions, Ms Kalogerou replied that offshores often are constructed because of tax planning although Cyprus does not see itself anymore as offshore and that a lot has changed.
- Members welcomed the fact that Cyprus applies MiFID II, as it's the first country to do so.

Meeting with the head of the Cyprus Unit for Combating Money Laundering (MOKAS), the Cyprian FIU, Eva Rossidou-Papakyriacou - key messages:

- The Cyprian FIU (MOKAS) is an independent authority and is responsible for gathering, evaluation and analysis of STRs related to AML, associated predicate offences and terrorist financing. It became operational in January 1997 and is multidisciplinary and established within the structure of the Law Office of the Republic. It is composed of officials from the Attorney General's Office, the Police and Customs as well as financial analysts (21 persons).
- Eva Rossidou-Papakyriacou informed the PANA delegation of the functions of MOKAS, which addresses all the elements of the FATF Recommendation 29 and the 4th EU AMLD. She stressed that the FIU has access to financial, administrative and law enforcement information, including through an application to the court for obtaining a Disclosure Order.
- The FIU is a member of the Egmont group since 1998.
- MOKAS issued a Directive regarding persons engaged in financial and other business activities for the suspension or non-execution of a transaction, or the monitoring of the movement of a bank account, whenever there is a reasonable suspicion that the transaction is connected with ML or terrorist financing.
- Persons engaged in financial or other business activities are obliged to report to the FIU any information or other matter when ascertained or have reasonable suspicions that another person is engaged in money laundering or terrorist financing or that the



transaction may be connected to such activities. Most of the STRs are submitted by the banking sector.

- She reported that Cyprus' anti-money laundering system was assessed four times by the Moneyval Committee of the Council of Europe, the last being in June 2010 (evaluation report published in September 2011). The report concluded that Cyprus adopted measures in line with international standards.
- In March 2013 Moneyval conducted an assessment of the effective implementation of customer due diligence procedures in the Cypriot banking sector. The feedback from all reports was that overall Cypriot credit institutions exhibit a high level of compliance with the statutory and regulatory requirements.
- Regarding the Panama Papers, she underlined that MOKAS issued a Guidance Note to all supervisory authorities of the financial sector in May 2016, with which it was clarified that obliged entities should examine the names of natural and legal persons contained in the Panama Papers data. If clients were identified, they should examine their transactions. If suspicious transactions were identified, the entities should report to the FIU for further analysis.
- Connections were identified on certain instances and the involvement was mainly the use of nominees to register companies in other jurisdictions. It was found that a freezing order of approximately €15 million was already issued regarding a company registered abroad, which opened bank accounts in Cyprus. The predicate offence was the offering of services of money transfer business without licence and the use of illegal proceeds. The €15 million is deposited in different accounts in 3 banks.
- The FIU received in total 89 reports related to the Panama papers, the majority of which were reported by banks.
- Rossidou-Papakyriacou informed the delegation that most of the companies contained in the Panama Papers were registered in foreign jurisdictions.
- Asked by the Members about which country is a sort of bench mark for MOKAS Ms Rossidou-Papakyriacou replied that they have a very good cooperation with the UK and that they cooperate well with Russia. On the question why offshore constructions are used/needed and if Cyprus is seriously fighting money laundering she replied that Cyprus is offering business facilities which is not illegal. She thinks that these offshores are sometimes related to tax planning and Cyprus is also advertising that. Sometimes perhaps they are used for suspicious reasons. MEPs stressed the need for an EU FIU, but Ms Rossidou expressed some concerns on this (as the FIU's are very different in nature). She also confirmed that they were following closely the negotiations on the 5th AML Directive.

**Meeting with the Association of Cyprus Banks (ACB) and the Association of International Banks (AIB Cyprus) - Mr Skandalis, key messages:**

- Marios Skandalis stressed that after the bail out in 2013 Cyprus enhanced its regulatory framework according to EU and International standards and guidelines in relation to the fight against financial crime and the promotion of transparency.
- In December 2013 Cyprus implemented one of the strictest regulatory frameworks globally, recognizing tax evasion as a predicated offence, providing identification of local PEPs, identifying UBOs on the basis of significant control and not only on shareholding basis etc.
- He stressed that Cypriot banks have stringent procedures for implementation of customer due diligence, monitoring and reporting of suspicious transactions.
- He informed that for the first time Cyprus is not listed as a jurisdiction of primary concern by the US Department of State 2017 INCSR - Volume for ML and financial crime.
- He underlined that according to a 2017 Transparency International Report on the publication of Financial Crime Fighting Data, Cyprus disclosed the most complete set of AML data among the 12 analysed countries (including USA, UK, Luxembourg, Netherlands, France, Germany etc.)
- With regard to the Panama Papers, he stressed that according to the CBC (Central Bank of Cyprus) Directive, any negative information on business relationships must be assessed, evaluated and acted upon.
- Banks have reviewed their records following the CBC's instructions and established whether their customers have or had any connection with Mossack Fonseca either directly or through a third party and took the necessary measures subject to the supervision of the CBC.
- MEPs asked what changed in Cyprus in relation to the 4th AML Directive. Also they asked if Cyprian banks are involved in offshore activities and if so what kind of services are then offered? Mr Skandalis replied that banks need to apply the 'know your customer' policy. When questioned about how PEPs are inspected Mr Skandalis replied that enhanced customer due diligence procedures apply. He confirmed that the 4 biggest banks in Cyprus are supervised by the ECB. In a question about the entities involved in creating offshore constructions related to the Panama Papers Mr Skandalis replied that doing business is not illegal and offshore may offer a flexible infrastructure. He also acknowledged that they provide sometimes a basis for criminal activity. He stressed that Cyprus is no longer a tax haven and that they just have the possibility of doing some flexible arrangements, thanks to the Common law system.

**Meeting with the Cyprus Bar Association (CBA) - key messages:**

- Andreas Michaelides stressed that the CBA has established four Registries: for lawyers, LLCs, administrative service providers companies (ASPs) and trusts.
- ASPs Registry is publicly available, while the Trusts Register is available for inspection by the CBA and other competent authorities.
- CBA keeps the following details in the Trust Registry: name of the trust, name and full address of every trustee at all relevant times, date of establishment of the trust, contact lawyer name, contact email and contact phone.
- Michaelides informed MEPs that the CBA conducts onsite visits (which are announced in advance) to all categories of lawyers, law firms and ASPs, with priority given to high-risk lawyers, law firms and ASPs.
- CBA conducted 199 inspections in 2016 and gave out 28 warnings; In 2015 they conducted 180 inspection and gave 58 warnings.
- In case the supervised entity is not fully compliant with the ALM law and the CBA Directive, the firm is given a certain period of time to take corrective measures. If no corrective measures are taken and the deficiencies are major, the member is reported to the CBA Council. The CBA Council hears the reported member and if it decides that the member failed to comply, it can impose sanctions.
- Sanctions on behalf of the CBA include: an administrative fine of up to €200.000 after the person has been heard, an administrative fine of up to €1.000 for each day the failure continues, to amend, suspend or revoke the license of operation of the supervised person, to require the dismissal or removal from their position.
- CBA has reviewed all information revealed and related to the Panama Papers. After identifying which of the regulated entities had been connected with Mossack Fonseca, CBA scheduled onsite visits, additionally to the visits it normally conducts.
- Michaelides said that there have been conducted onsite inspections to 72 related supervised entities.
- Through the onsite inspections, he stressed that no specific ML case has been identified. Three STRs were sent to MOKAS related to Panama Papers after the revelations.
- He presented CBA's commitment to an ongoing training (training activities and workshops) of its Members on compliance and AML issues, as well as to adopting proper KYC and due diligence procedures.
- Asked about whether 4 people are enough to supervise Michaelides answered that they do not have to supervise 3500 lawyers but only 1044 as they are involved in the business. In the question whether the lawyers think that supervision by self-regulation is enough, Mr Michaelides replied positively.