



CENTRAL BANK OF CYPRUS

EUROSYSTEM

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14 June 2018

(Circular Letter)

To the Money Laundering Compliance Officers
of all Credit Institutions.

BY EMAIL

Dear Sir/Madam

Subject: 'Shell Companies and Letter box companies'

With reference to the subject matter, we would like to inform you that the Central Bank of Cyprus shall incorporate in the forthcoming revision of the Directive for the Prevention of Money Laundering and Terrorist Financing, issued to credit institutions by virtue of article 59(4) of the Prevention and Suppression of Money Laundering Activities Laws of 2007 to 2018, certain requirements for business relationships with the so-called 'shell companies'.

To this effect, the following definition of shell companies will be adopted:

«The term "shell company" refers to a non-publicly traded, limited liability company (LLC) or any other business entity that fulfills any one of the following criteria:

- a) has no physical presence in its country of domicile (other than a mailing address);*
- b) has no established economic activity, little to no independent economic value and no documentary proof to the contrary;*
- c) is registered in a jurisdiction where companies are not required to submit to the authorities independently audited financial statements;*

d) *has a tax residence in a jurisdiction recognised as a 'tax haven' or no tax residence whatsoever.*

For the purposes of this paragraph, physical presence is construed as a meaningful mind and management located within a country. The presence of a third person such as a lawyer, an accountant or a TCSP, acting merely as an agent of the company and/or providing nominee services including company secretary duties does not constitute physical presence. Also, the lack of employed personnel (including the nominal presence of one single person as a staff member) is construed as lack of physical presence.»

In this respect, the following regulatory requirement is introduced:

«If a company fulfills any of the above criteria, engaging into or renewing a business relationship should be avoided. Before taking a decision the following should be taken into consideration irrespective of the ML/TF risk assessment carried out by the credit institution in compliance with article 58A of the AML/CFT Law :

- The company is established for the purpose of holding stock or shares of another business entity or entities with identifiable activities and ownership.*
- The company is established solely for the purpose of holding intangible or other assets including real estate or ship vessels.*
- The company is established to facilitate currency trades and asset transfers, corporate mergers, acts as group treasurer or in any other case where convincing proof can be provided that the company is engaged in legitimate business and substantiated information is provided about its ultimate beneficial owner/s. »*

The revised CBC AML Directive will include a requirement for the incorporation of the above definition within the policy and procedures for the prevention of money laundering with immediate effect and application to all new business relationships. Also, the CBC AML Directive will include a requirement for full justification of the decision to engage into or maintain such a business relationship. Such decisions should be recorded in the customer's file. The Money Laundering Compliance Officer's opinion on the management decision should also be appropriately documented.

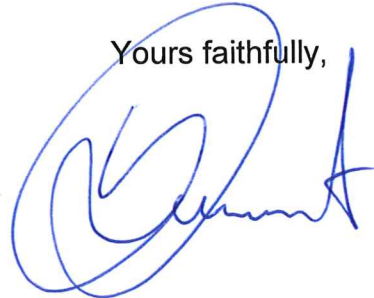
In this respect, you are required to:

CENTRAL BANK OF CYPRUS

EUROSYSTEM

- (a) review your client base in order to identify those cases which prima facie fall under the aforementioned definition,
- (b) assess the future of the business relationship,
- (c) inform the CBC about the outcome of your review under point (a) above and provide any comments of substance on the above definition by 31 July 2018 by email to bsrd.compliance@centralbank.cy.

Yours faithfully,

A handwritten signature in blue ink, appearing to be 'Yiagnos Demetriou', written over a large, light blue circular scribble.

Yiagnos Demetriou
Acting Senior Director
Supervision Division

cc: Association of Banks

MTH/AA/MN