Cyprus remains vulnerable to significant money laundering and illicit finance activities

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The International Narcotics Control Strategy Report (INCSR) is an annual report by the Department of State to Congress prepared in accordance with the Foreign Assistance Act and describes the efforts of key countries to tackle all aspects of the international drug trade.

According to the INCSR report released in February 2009, Cyprus has many vulnerabilities and weaknesses which should be improved.

Even though the above report recognises that Cyprus is a major regional finance centre with a robust financial services industry, it also points out certain significant weaknesses which Cyprus authorities should take seriously into consideration and try to remedy.

According to the report, Cyprus is still vulnerable to significant money laundering and illicit finance activities: Although Cyprus has made progress from its days as an offshore haven for tax evasion, money laundering and other types of criminal financial activity, it remains vulnerable to significant money laundering and illicit finance activities. Simple financial crime such as fraud and tax evasion, along with narcotics-trafficking and proceeds from organized crime are the major sources of illicit proceeds laundered in Cyprus.

Cyprus has historic ties to organized criminal elements: A number of factors have contributed to the development of Cyprus as a financial centre: the island's central location; a preferential tax regime; double tax treaties with 40 countries (including the United States, several European Union nations, and former Soviet states); a labour force well trained in legal and accounting skills; a sophisticated telecommunications infrastructure; and EU membership. However, these same factors also make Cyprus attractive to illicit actors seeking access to European markets or desiring to launder criminal proceeds. Cyprus' historic ties to organised criminal elements and large number of shell companies - which may be used by criminals and proliferators as fronts to facilitate illegal activity - also may attract illicit financiers.

Difficulties in monitoring activities of non-resident businesses raises concern about money laundering: Cyprus has lifted the prohibition from doing business domestically and companies formerly classified as offshore are now free to engage in business locally. In March 2007, Cyprus withdrew from the Offshore Group of Banking Supervisors. By removing any distinction between resident and non-resident or onshore and offshore companies, the same disclosure, reporting, tax and other laws and regulations apply equally to all registered companies. Despite these stricter standards, few of the estimated 54,000 non-resident companies established in Cyprus as of 2006 have taken themselves off the company register, and the number of new non-resident companies registering in Cyprus continues to increase as a result of the low tax rate and high service quality. The high number of non-resident businesses raises concern about money laundering due to difficulties in monitoring their activities.

Regulatory oversight of lawyers and accountants remains low: Regulatory oversight of entities such as lawyers and accountants, who are involved in corporate registration and the collection of beneficial ownership information, remains low. This lack of oversight could complicate the ability of authorities to access beneficial ownership information if such information is not collected at the time of registration and can create a permissive environment for beneficial owners of shell companies who may use these firms to conceal illicit activities.

Surprisingly low investigation and conviction of money laundering cases: From January 1 to December 18, 2008, MOKAS opened 563 cases and closed 195. Since 2000, there have been 20 prosecutions for money laundering, seven of which took place in 2008. Of the 20 prosecutions, 11 have resulted in convictions. In 2008, MOKAS issued three confiscation orders for a total of ?70,000 ($94,500). A number of other cases are pending. Despite the size of the financial sector and the seemingly comprehensive nature of the AML/CTF legislative regime, the number of reports, investigations and convictions of money laundering cases in Cyprus remains surprisingly low. Furthermore, suspicious transaction reporting from the non-financial sector, including lawyers and accountants, also remains low.

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