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TO : **Regulated Entities:**

- i. **Cyprus Investment Firms ('CIFs')**
- ii. **Administrative Service Providers ('ASPs')**
- iii. **Alternative Investment Fund Managers ('AIFMs')**
- iv. **UCITS Management Companies ('UCITS MC')**
- v. **Self-Managed UCITS ('SM UCITS')**
- vi. **Self-Managed Alternative Investment Funds ('SM AIFs')**
- vii. **Self-Managed Alternative Investment Funds with Limited Number of Persons ('SM AIFLNP')**
- viii. **Companies with sole purpose the management of AIFLNPs**
- ix. **Small Alternative Investment Fund Managers ('Small AIFMs')**

FROM : **Cyprus Securities and Exchange Commission**

DATE : **June 30, 2022**

CIRCULAR No : **C519**

FILE No : **01.13.001.002.002**

SUBJECT : **EBA Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis under Article 48(10) of Directive (EU) 2015/849 (amending the Joint Guidelines ESAs 2016 72) (The Risk-Based Supervision Guidelines)**

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The Cyprus Securities and Exchange Commission ('CySEC') wishes with this Circular to inform the Regulated Entities of the following:

1. The European Banking Authority ('EBA') published, on the **16<sup>th</sup> of December 2021**, its final guidelines (['EBA/GL/2021/16'](#)) on the characteristics of a risk-based approach to anti-money laundering and terrorist financing ('AML/TF') supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis under Article 48(10) of Directive (EU) 2015/849<sup>1</sup> ('The Risk-Based Supervision Guidelines')
2. The Joint Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis (['ESAs/2016/72'](#)), are repealed, with effect from the date of application of the EBA/GL/2021/16.
3. EBAs' Guidelines EBA/GL/2021/16 are addressed to competent authorities as defined in point (2)(iii) of Article 4 of Regulation (EU) No 1093/2010.

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<sup>1</sup> Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

4. The proposed amendments address the key challenges for supervisors when implementing the risk-based approach. They also take into consideration changes in the EU legal framework that came into force since the guidelines were first issued and new international guidance by the Financial Action Task Force ('FATF') and the Basel Committee on Banking Supervision on this topic.
5. In summary, the revised guidelines:
  - emphasise the need for a comprehensive risk assessment at a sectoral and subsectoral level to support competent authorities' identification of those risk areas that require more intense supervisory attention;
  - explain different supervisory tools available to competent authorities and provide guidance on selecting the most effective tools for different purposes;
  - emphasise the importance of a robust follow-up process and set out different aspects that competent authorities should consider when determining the most effective follow-up action;
  - provide further guidance on the implementation of a robust supervisory strategy and plan, to ensure that competent authorities allocate their supervisory resources according to the risk exposure of subjects of assessment under their supervision;
  - clarify competent authorities' obligations as regards the Anti-Money Laundering/Combating the Financing of Terrorism ('AML/CFT') supervision of groups and emphasise the need for competent authorities, that are responsible for the supervision of the group's head office, to develop a good understanding of ML/TF risks to which the group is exposed with a view to ensuring that group-wide policies and procedures are implemented effectively;
  - highlight the importance of cooperation among competent authorities and between competent authorities and other stakeholders, including prudential supervisors, the financial intelligence unit (FIU), tax authorities, law enforcement and AML/CFT authorities in third countries. In particular, the guidelines recognise that supervisory cooperation is important not only when supervising cross-border groups, but also in respect of domestic groups and subjects of assessments;
  - provide further guidance on how competent authorities can determine the type of guidance needed within the sector and how to communicate this guidance in the most effective manner.
6. These Guidelines will apply from 04 July 2022 and CySEC will reflect their provisions as appropriate into its Risk Based Supervision Framework ('RBS-F') as well as in the relevant AML/CFT risk-based supervisory process.
7. CySEC urges the Regulated Entities to take duly account and read EBAs Risk-Based Supervision Guidelines, by clicking on the link below:

<https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=174f625b-a8c0-4d69-ba3c-7efd0c56b466>

Sincerely,

George Karatzias  
Vice-Chairman of the Cyprus Securities and Exchange Commission