
To : **Regulated Entities**

- i. Cyprus Investment Firms ('CIFs')**
- ii. Administrative Service Providers ('ASPs')**
- iii. Undertakings for Collective Investment in Transferable Securities ('UCITS')**
- iv. UCITS Management Companies ('UCITS MC')**
- v. Alternative Investment Fund Managers ('AIFMs')**
- vi. Alternative Investment Funds ('AIFs')**
- vii. Alternative Investment Funds with a Limited Number of Persons ('AIFLNP')**

From : **Cyprus Securities and Exchange Commission**

Date : **31 March 2017**

Circular No : **C 197**

Subject : **ESAs Joint Opinion on the risks of money laundering and terrorist financing affecting the Union's financial sector**

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

1. According to Article 6(5) of (EU) 2015/849 ('The 4th EU Anti-Money Laundering Directive), the three European Supervisory Authorities, EBA, EIOPA and ESMA (the 'ESAs'), are mandated to prepare, every two years, a joint Opinion on the risks of money laundering (ML) and terrorist financing (TF) affecting the European Union's financial sector.
2. The ESAs published on 20 February 2017 a joint opinion (the 'Joint Opinion') addressed to the European Commission on the risks of ML/TF affecting the European Union's financial sector. This Joint Opinion will contribute to the European Commission's supranational risk assessment work as well as that of the ESAs of fostering supervisory convergence and a level playing field in the area of anti-money laundering (AML) and countering the financing of terrorism (CFT).
3. The Joint Opinion finds that problems exist in key areas such as firms' understanding of the ML/TF risk to which they are exposed and the effective implementation, by firms, of customer due diligence policies and procedures. The Joint Opinion also highlights difficulties associated with the lack of timely access to intelligence that might help firms identify and

prevent terrorist financing and considerable differences in the way competent authorities discharge their functions.

4. In particular, the ESAs consider that, at the time of writing the Joint Opinion, the European Union's financial sector is exposed to ML/TF risks arising from:
 - a) ineffective AML/CFT systems and controls, which leave firms vulnerable to abuse by financial criminals;
 - b) firms taking advantage of significant differences in Member States' approaches to AML/CFT regulation and oversight to obtain authorisation in Member States whose AML/CFT regime is perceived to be less demanding, with a view to passporting services to other Member States;
 - c) lack of access to intelligence on terrorist suspects undermining efforts to curb terrorist financing; and
 - d) high-risk transactions being driven underground, as firms withdraw from offering services to less profitable customers that are associated with higher ML/TF risk.
5. The ESAs believe that the ML/TF risks arising from the above and highlighted in the Joint Opinion, mean that more has to be done to ensure that the Union's AML/CFT defences are effective. This is particularly important as Member States move towards a more risk-based AML/CFT regime that presupposes a level of ML/TF risk awareness and management expertise that this Opinion suggests does not yet exist.
6. **The CySEC urges the Regulated Entities to take duly account and read the Joint Opinion, by clicking on the link below, giving special attention to the analysis of the findings in relation to points (a) and (d) of paragraph 5 above.**

<http://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=128331fc-19b0-46ae-8222-df0a3b709bbb>

Sincerely,

Demetra Kalogerou
Chairwoman of the Cyprus Securities and Exchange Commission