



TO : i. Cyprus Investment Firms
ii. Management Companies
iii. Administrative Service Providers

FROM : Cyprus Securities and Exchange Commission

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SUBJECT : Serious Tax Offences

The Cyprus Securities and Exchange Commission ('the Commission') wishes to inform the Cyprus Investment Firms, Management Companies and Administrative Service Providers ('the Regulated Entities') about the following:

1. In February 2012, Financial Action Task Force the international body responsible to set standards and promote the effective implementation of measures for combating money laundering and terrorist financing, amended its [recommendations](#) according to which, the definition of 'predicate offense' includes serious tax offenses related to direct or indirect taxes.
2. Article 3(4) of the European Commission's Proposal on the prevention of use of the financial system for the purpose of money laundering and terrorist financing, which is still pending for adoption, states the following:

"criminal activity" means any kind of criminal involvement in the commission of the following serious crimes: ...

(f) all offences, including tax crimes, as defined in national law of the Member States, related to direct taxes and indirect taxes, which are punishable by deprivation of liberty or a detention order for a maximum of more than one year or, as regards those States which have a minimum threshold for offences in their legal system, all offences punishable by deprivation of liberty or a detention order for a minimum of more than six months;

It is provided that the above mentioned definition may change with the adoption of the Proposal.

3. According to Section 51A of the Assessment and Collection of Taxes Law, as amended in December 2012, a person who is proved that fraudulently omits or delays to pay the amount of tax which is required to pay under this law, is guilty of a criminal offence, punishable if convicted with imprisonment of at least one year.
4. Additionally, according to Section 5 of the Prevention and Suppression of Money Laundering and Terrorist Financing Laws of 2007 – 2013 ('the Law'), predicate offences are, amongst other, all criminal offences punishable with imprisonment exceeding one year, as a result of which proceeds have been derived which may constitute the subject of a money laundering offence.

Based on the foregoing, fraudulent tax evasion falls under the scope of the Law.

5. The Regulated Entities are required, following a risk based approach:
 - i. To implement adequate and appropriate systems and processes to detect, prevent and deter money laundering arising from serious tax offences.
 - ii. Not to knowingly aid or abet clients of prospects in committing tax offences.
 - iii. When applying client due diligence measures, to screen clients against databases or third party checks for adverse tax-related news.
 - iv. To conduct on-going monitoring of the business relationship with their clients and to ensure that the actual amount of funds deposited by clients are consistent with the amount of funds indicated at account opening, as well as with the economic profile of the client.
6. Regulated Entities are not expected to determine if their clients are fully compliant with all their tax obligations globally. They are, however, expected to determine whether there are reasonable grounds to suspect that client accounts contain proceeds derived from serious tax offences and when such is the case, they should proceed with the appropriate reporting obligations.

Yours sincerely

Demetra Kalogerou
Chairwoman of the Cyprus and Exchange Commission