
To : **Regulated Entities**

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From : **Cyprus Securities and Exchange Commission**

Date : **December 21, 2021**

Circular No : **C 478**

Subject : **National Risk Assessment on Money Laundering and Terrorist Financing Risks with respect to Virtual Asset and Virtual Asset Service Providers**

The Cyprus Securities and Exchange Commission ('the CySEC') wishes, with this Circular, to inform the Regulated Entities on the results of the National Risk Assessment (the 'NRA') on Money Laundering and Terrorist Financing ('ML/TF') risks of Virtual Assets ('VA') Activities and Virtual Asset Service Providers ('VASPs'), which was published by the Ministry of Finance of the Republic of Cyprus ([available here](#)).

In the context of compliance with International Financial Action Task Force (FATF) standards, and in particular FATF Recommendation 15, through the collaboration of the Ministry of Finance and the House of Representatives, a specialised Risk Assessment on the introduction of VA and VASPs in the Republic, was commissioned in July 2020, from a specialised US Advisory Firm, Bandman Advisors, with expertise in FinTech & RegTech and Crypto Asset technology.

The NRA report focus on the ML/TF risks posed by VA and VASPs, by identifying and assessing the risks that may arise in relation to the use of these new technologies. In addition, it includes recommendations and other appropriate measures in order to manage and mitigate those risks, as required by the relevant FATF's Recommendations.

The NRA Findings and Recommendations, which have been included in the Report, form the basis for drawing up an Action Plan, which includes measures/actions to remedy the ML/TF risks identified and recorded in the Report.

The said report has been published on the Ministry of Finance's website, as per the provisions of article 57(1)(d) of the Prevention and Suppression of Money Laundering and Terrorist Financing Law ('AML/CFT Law') and in accordance with the EU AML/CFT Directives. One of the purposes of publishing the NRA Report is to provide appropriate information to the Regulated Entities in order to carry out their own risk assessment of ML/TF risks in relation to VA activities, as provided for in articles 57(1)(b1)(v) and 58A of the AML/CFT Law. The NRA results are an important source of information, which the Regulated Entities, need to consider when identifying and assessing money laundering and terrorist financing risks.

In the same context, the '*Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions*' ('Risk Factors Guidelines') apply, for which CySEC has issued Circular [C276](#). In particular, the Risk Factors Guidelines state the following:

'Identifying Money Laundering/Terrorist Financing (ML/TF) risk

13. When identifying ML/TF risks associated with a business relationship or occasional transaction, firms should consider relevant risk factors including who their customer is, the countries or geographical areas they operate in, the particular products, services and transactions the customer requires and the channels the firm uses to deliver these products, services and transactions.

Sources of information

14. Where possible, information about these ML/TF risk factors should come from a variety of sources, whether these are accessed individually or through commercially available tools or databases that pool information from several sources. Firms should determine the type and numbers of sources on a risk-sensitive basis.

15. Firms should always consider the following sources of information:

- *the European Commission's supranational risk assessment;*
- *information from government, such as **the government's national risk assessments**, policy statements and alerts, and explanatory memorandums to relevant legislation; [...]*

The CySEC considers the NRA Report to be of assistance to the Regulated Entities engaging or seeking to engage in VA activities, in understanding their AML/CFT risks and obligations and how they can effectively comply with these obligations. Hence, the CySEC expects that all Regulated Entities study the Report in depth, as its content should be taken into account when assessing AML/CFT risks, thereby improving the effectiveness of the measures and procedures applied.

The implementation of measures/actions by CySEC has already commenced in order to address the identified risks. CySEC has issued a Policy Statement on the Registration and Operations of Crypto Asset Services Providers ('CASP') – PS-01-2021 ([available here](#)) to outline its approach on the registration and operations CASPs under the AML/CFT Law, the CySEC Directive for register of CASPs ([available here](#)) and [Circular C476](#) relating to the FATF's Guidance on Risk-based Approach for Virtual Assets and Virtual Asset Service Providers. In addition, CySEC is in the process of amending its Directive for the Prevention and Suppression of Money Laundering and Terrorist Financing, to accommodate the FATF Recommendation regarding virtual asset transfers often referred to as the "FATF Travel Rule".

The CySEC, remains committed to taking all the necessary measures to address the recommendations recorded in the NRA Report, in order to manage and mitigate the money laundering and terrorist financing risks of VA and VASPs.

Sincerely,

Dr George Theocharides
Chairman
Cyprus Securities and Exchange Commission