
To : **Regulated Entities:**

- i. Cyprus Investment Firms ('CIFs')
- ii. Administrative Service Providers ('ASPs')
- iii. UCITS Management Companies ('UCITS MC')
- iv. Alternative Investment Fund Managers ('AIFMs')
- v. Self-Managed Alternative Investment Funds ('SM AIFs')
- vi. Self-Managed Alternative Investment Funds with a Limited Number of Persons ('SM AIFLNP')

From : Cyprus Securities and Exchange Commission

Date : 21 December 2017

Circular No : C252

Subject : ESAs 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 – 'The Risk-Based Supervision Guidelines'

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

1. The Joint Committee of the three European Supervisory Authorities (EBA, EIOPA and ESMA – 'ESAs') published, on the 7th of April 2017, its final guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing ('AML/CFT') supervision and the steps to be taken when conducting supervision on a risk-sensitive basis ('**The Risk-Based Supervision Guidelines**'). These guidelines are based on a mandate in Article 48(10) of Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing ('4th AML Directive').
2. The Risk-Based Supervision Guidelines are addressed to National Competent Authorities ('NCAs') responsible for supervising credit and financial institutions' compliance with applicable AML/CFT obligations. They define the characteristics of a risk-based approach to AML/CFT supervision and set out what NCAs should do to ensure that their allocation of supervisory resources is proportionate to the level of money laundering and terrorist financing (ML/TF) risk associated with credit and financial institutions in their sector. The aim of the guidelines is to create both a common understanding of the **Risk-Based Supervision ('RBS')** and to establish consistent and effective supervisory practices across EU.

3. Specifically, in these guidelines, the RBS is characterised as an ongoing and cyclical process that includes **four steps**:
- The **identification of ML/TF risk factors**, whereby competent authorities obtain information on both domestic and foreign ML/TF threats affecting the relevant markets;
 - The **risk assessment**, whereby competent authorities use this information to obtain a holistic view of the ML/TF risk associated with each credit or financial institution ('firm'), or group of firms, including the inherent risk to which the firm or group of firms is exposed and the risk mitigants a firm or group of firm has in place;
 - The **allocation of AML/CFT supervisory resource** based on this risk assessment, which includes decisions about the focus, depth, duration and frequency of on-site and off-site activities and supervisory staffing needs, including technical expertise; and
 - **Monitoring and review** to ensure the risk assessment and associated allocation of supervisory resource remains up to date and relevant.
4. The Risk-Based Supervision Guidelines will apply from **7 April 2018** and CySEC will incorporate them into its Risk Based Supervision Framework ('RBS-F'), as appropriate in the relevant AML/CFT risk-based supervision process.
5. The CySEC urges the Regulated Entities to take duly account and read ESAs Risk-Based Supervision Guidelines, by clicking on the link below:

<https://www.cysec.gov.cy/en-GB/legislation/financial-crimes/EUROPEAN-REGULATORY-FRAMEWORK/>

Sincerely,

Demetra Kalogerou
Chairwoman of the Cyprus Securities and Exchange Commission