

POLICY STATEMENT

(PS-01-2021)



SUBJECT: POLICY STATEMENT ON THE REGISTRATION AND OPERATIONS OF CRYPTO-ASSET SERVICES PROVIDERS

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PURPOSE OF THE PUBLICATION

The Cyprus Securities and Exchange Commission, publishes this Policy Statement in order outline its approach on the registration and operations of Crypto-Asset Services Providers.

Queries in relation to the content of this Policy Statement may be addressed to the Policy Department of the Cyprus Securities and Exchange Commission at policy@cysec.gov.cy.

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1. INTRODUCTION

1.1. BACKGROUND INFORMATION

WHAT IS DLT?

1.1.1. Distributed Ledger Technology (“**DLT**”) including Blockchain is a breakthrough technology allowing for the decentralised validation and keeping of records of transactions, data and other information. DLT allows for the decentralised validation and distribution of records of information, either privately or publicly, creating a repeated digital copy of data available at multiple locations, known as nodes. Even though the deployment of DLT may provide a number of potential benefits when used in the securities markets¹, such as:

- i. More efficient post-trade processes;
- ii. Enhanced reporting and supervisory functions;
- iii. Greater security and availability;
- iv. Reduced counterparty risk and enhanced collateral management;
- v. Cost reduction in transactions, through the removal of intermediaries; and
- vi. Creation of tamper-proof and immutable records,

it also raises specific risks and challenges.

WHAT ARE THE RISKS AND CHALLENGES WHEN USING DLT IN THE SECURITIES MARKETS?

1.1.2. The ability of DLT to deliver its potential benefits in the financial markets, is contingent to overcoming certain key challenges and to managing and mitigating the specific risks involved².

1.1.3. The key challenges include:

- i. The interoperability, standardisation and the widespread adoption of the technology;

¹ See ESMA, 2017. ‘*The Distributed Ledger Technology Applied to Securities Markets*’, February 2017 (“**the ESMA DLT Report of 2017**”). Available at https://www.esma.europa.eu/system/files/force/library/dlt_report_-_esma50-1121423017-285.pdf

² See Sections 4, 5 and 6 of the ESMA DLT Report of 2017.

- ii. The scalability of the technology when large volume of transactions are involved;
- iii. Governance issues, including clear lines of responsibility, in view of its decentralised nature;
- iv. The conformity of the technology with the existing regulatory framework, in view of the fact that the regulatory framework governing securities markets is based on the existence of a central party at each limb of a transaction involving a security, being entrusted with the task of ensuring compliance with the said framework (namely for the creation of the security, the best execution of the transaction, the clearing and settlement of the transaction and the custody of the security), whereas DLT, including blockchain, is diametrically opposed to such concept.

1.1.4. As to the key risks involved, these include:

- i. Cyber risks, including concentration risk stemming from a single unsecured node;
- ii. Operational risks, including those stemming from coding errors;
- iii. Risks to fair competition and market integrity, stemming from new opportunities provided by the said technology;
- iv. Money laundering and terrorist financing risks.

PROMINENT APPLICATION OF DLT AND CURRENT STATE OF THINGS

1.1.5. DLT, particularly Blockchain is currently known as the underlying technology of crypto-assets. Crypto-assets is a broad term that covers a diverse set of [private] assets that share a common characteristic, namely the fact that they utilise cryptography and DLT. DLT is underpinned by a cryptographic system that functions on the basis of pairs of keys³: The public keys on the one hand, are publicly known addresses and are used for identification, whilst private keys are not publically known and are used for authentication and encryption and serve as proof of ownership of a crypto-asset, rendering thus crypto-assets as bearer instruments⁴.

³For further information see ESMA, 2019. “*Advice Initial Coin Offerings and Crypto Assets*”, 9 January 2019 (the “**ESMA Advice on Crypto Assets**”). Available at: https://www.esma.europa.eu/sites/default/files/library/esma50-157-1391_crypto_advice.pdf

⁴ See the ESMA Advice on Crypto-Assets.

- 1.1.6.** Depending on their structure, crypto-assets may, inter alia:
- i. Qualify as financial instruments under the Investment Services and Activities and Regulated Markets Law, transposing MiFID II⁵ (**the “Investment Services Law”**);
 - ii. Qualify as Electronic Money under the Electronic Money Law⁶, transposing EMD2⁷ (**the “E-Money Law”**);
 - iii. Be a digital representation of value that is neither issued nor guaranteed by a central bank or a public authority, it is not necessarily attached to a legally established currency and does not possess a legal status of currency or money, but is accepted by natural or legal persons as a means of exchange and which can be transferred, stored, and traded electronically, and it does not qualify neither as fiat currency, nor as any of the instruments referred to in points (i) and (ii) above.

1.1.7. For the purposes of this Policy Statement the term **“Crypto-assets”** will hereinafter be used to describe the products referred to in point iii of the previous paragraph, whereas the products of points of i and ii of the previous paragraph, will be referred to as (**“Financial Instrument Tokens” or “FIT”**) and (**“E-Money Tokens” or “EMT”**), respectively.

1.1.8. Where a token qualifies as a financial instrument under the Investment Services Law, the existing regulatory framework in relation to investment services applies and depending on the instrument and/or activity in question other sectoral rules may also apply. For instance, in the case of FITs which are Units in Collective Undertaking (**“UCI”**), the relevant rules in relation to the specific type of UCI apply, or in case of offerings of FITs that qualify as Transferable Securities the Prospectus Regulation⁸ or the Crowdfunding

⁵ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (**“MiFID II”**). Available at: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32014L0065>

⁶ Available at: <https://www.centralbank.cy/images/media/pdf/The-Electronic-Money-Law-2012.pdf>

⁷ Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC (**“EMD2”**). Available at: <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A32009L0110>

⁸ Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71 (**the “Prospectus Regulation”**). Available here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32017R1129>

In cases of cross-border offerings of Transferable Securities, due consideration shall be given on the thresholds set at national level for the purposes of the Prospectus Regulation.

Regulation⁹, may apply, depending on the specificities entailed. The use of DLT for the purposes of FIT's trading, is envisaged to be facilitated under the European Commission's ("**EC**") proposed DLT Pilot Regime¹⁰, which is currently under discussion by the EU Co-Legislators.

- 1.1.9.** Similarly in the case of EMTs the relevant rules apply, the enforcement of which at national level, lies with the Central Bank of Cyprus.
- 1.1.10.** Conversely crypto-assets' activities are not currently subject to bespoke rules at EU level. However, a limited number of Member States have introduced bespoke national rules regulating the Crypto-assets' activities in their territory. At EU level the provision of services in relation to crypto-assets is envisaged to be regulated under the EC's proposed Regulation on Markets in Crypto Assets¹¹ ("**MiCA**"), which also assimilates certain crypto-assets to EMTs, whereas for the purposes of preventing Money Laundering and Terrorist Financing crypto-assets' activities are already covered under the 5th AML Directive¹² at EU level ("**AMLD5**"). On 20 July 2021, the European Commission presented a new package of legislative proposals to strengthen the EU's anti-money laundering and countering the financing of terrorism rules¹³, inter alia by taking into account the rapidly evolving crypto-space (**the "New EU AML/CFT Package"**).

⁹ Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 (**the "Crowdfunding Regulation"**). Available here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R1503>

The Crowdfunding Regulation applies from 10 November 2021. Up until the application of Crowdfunding Regulation, Crowdfunding through intermediaries is regulated at national level, under the Investment Services Law, as elaborated by means of Directive DI 87-10 (**the "CySEC Crowdfunding Directive"**).

See CySEC's Policy Statement on Investment Based Crowdfunding Rules, dated 15 January 2020 here: <https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=f1802d1b-a844-4066-964a-40b938af51a0>

¹⁰ Proposal for a Regulation of the European Parliament and of the Council on a pilot regime for market infrastructures based on distributed ledger technology. Available here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020PC0594>

¹¹ Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets, and amending Directive (EU) 2019/1937. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020PC0593>

¹² Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L0843>

¹³ Available at: https://ec.europa.eu/info/publications/210720-anti-money-laundering-countering-financing-terrorism_en

1.1.11. In a nutshell at EU level:

- i. Legislative proposals were formulated that envisage:
 1. Amendments to the existing regulatory framework, in order to:
 - corroborate that FITs qualify as financial instruments;
 - create bespoke rules that are risk specific; and
 - create a pilot regime for DLT based Trading Venues;
 2. Introduce a new regulatory framework (i.e. MiCA) in relation to tokens that do not qualify as financial instruments (i.e. crypto-assets) and Introduce bespoke rules for Asset Referenced Tokens and EMTs (so called 'stable-coins;¹⁴).
- ii. Cryptoassets' activities are subject to anti-money laundering and counter-terrorism financing ("**AML/CFT**") regulation and supervision under AMLD5 and will be also subject to the relevant rules of the New EU AML/CFT Package, once these come into force.

1.1.12. At national level crypto-assets' activities remained out of the scope of the regulatory perimeter (except for the cases triggering the existing financial regulation, as mentioned above). CySEC discouraged regulated entities, particularly investment firms, from engaging in (currently unregulated) crypto-assets' activities, in order to avoid spill-over risks to regulated activities. However a limited number of investment firms (6) were permitted to provide crypto-assets' activities on a limited scale in the past, as a non-regulated activity, in an effort to further inform our view on crypto-assets.

1.2. RISKS OF CRYPTO ASSETS

1.2.1. Bitcoin, which was the very first crypto-asset project that used DLT as the underlying technology, was underpinned by a rebellious philosophy of creating an ecosystem independent of central authorities, fostering decentralization and disintermediation. This philosophy unavoidably raised eyebrows amongst regulators, as the orderly functioning of the financial system is a product of regulation and supervision on the basis of identifying a centrally responsible entity at each stage of a security's lifecycle.

¹⁴ "Stablecoins" are a relative new form of payment/exchange crypto-asset with a goal to achieve price stability, by means of a stabilisation mechanism. See the impact assessment on Directive/regulation establishing a European framework for markets in crypto assets, which is available here: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12089-Financial-services-EU-regulatory-framework-for-crypto-assets_en

- 1.2.2.** The crypto-assets' projects that were developed later on, were sharing a similar philosophy as the one underpinned the development of Bitcoin and therefore shared similar risks. The development of new products and actors created an ecosystem with bespoke risks, threads and vulnerabilities.
- 1.2.3.** CySEC, in line with ESMA's guidance on Initial Coin Offerings and crypto-assets, determined that money laundering and terrorist financing ("**ML/TF**") is one of the key risks that crypto-assets entail. The Financial Action Task Force ("**FATF**") has also concluded that DLT presents new opportunities for criminals and terrorists to launder illicit proceeds.
- 1.2.4.** In addition to the Money Laundering and Terrorist Financing ("**ML/TF**") risks, in our view, crypto-assets involve additional risks, such as:
- i. Risks in relation to investor protection who may be lured into unsuitable investments, based on inaccurate and/or incomplete information and who may be exposed to the risk of fraud¹⁵, conflicts of interest, poor conduct, inadequate financial position of the intermediate actors, poor governance and poor organizational and operational arrangements;
 - ii. Risks in relation to market integrity, stemming from inconsistent liquidity¹⁶, unregulated price discovery mechanisms, insider dealing and market abuse in relation to crypto-assets, lack of pre and post trade transparency rules, which in effect may undermine investors protection;
 - iii. Risks stemming from technological specificities, such as the possibility of coding errors in smart contracts, the possibility of a controlling majority of a specific network's validation capacity, engaging in fraudulent activities, creating double spending or other abusive opportunities, or the possibility of cyber-attacks, creating bespoke business continuity and disaster recovery challenges;
 - iv. Custody risks, stemming from technological specificities (such as holding of crypto-assets online in so called **Hot Wallets**¹⁷) or from the possibility of theft of the hardware were the private keys may be held (i.e. from the so called **Cold Wallets**¹⁸);

¹⁵ According to a crypto-assets' coverage report of 2018, as a percentage of the total number of ICOs, approximately 78% of ICO's were identified as Scams, ~4% Failed, ~3% had Gone Dead, and ~15% went on to trade on an exchange. See here: [Cryptoasset Market Coverage Initiation: Network Creation \(bloomberg.com\)](#)

¹⁶ The crypto-assets' market appears to be highly volatile and unpredictable. Certain crypto-assets experience high levels of intraday volatility and in some cases high levels of intra-hour or even intra-minute volatility, leading to price gaps.

¹⁷ Software wallet which may be installed on a computer or mobile phone or run in the cloud.

¹⁸ Hardware wallet in the form of a physical storage device, such as a USB.

- v. Potential financial stability risks, stemming from a broader use of crypto-assets as a means of payment/exchange and/or from specific projects that potentially involve significant financial capacity, mainstream acceptance and substantial economic activity.

1.2.5. In view of the potential consumer’s detriment emanating from crypto-assets, as early as 2014, CySEC issued several warnings¹⁹ on the risks involved, urging consumers to be cautious.

1.2.6. As to the ML/TF risks, crypto-assets are bearer instruments that to some extent are anonymous²⁰ or pseudo-anonymous²¹ and where they are being used as a form of payment, there is an increased risk of money laundering and terrorist financing. This is exacerbated by the fact that in contrast to cash transactions, which are also high risk transactions, they do not require the physical presence of the respective person. This lowers the barrier for this type of transaction to be carried out, increasing thus the frequency of high-risk transactions and pose a significant operational risk to the system.

1.2.7. Anonymity is further facilitated by anonymous crypto wallets and by emerging products, services or tools infiltrating the crypto-assets’ ecosystem, which in effect provide new ML/FT opportunities, including new opportunities for placement, layering and integration of illicit proceeds. Certain emerging crypto-assets, the so called “*privacy coins*”²², are inherently anonymous, obscuring the sender, the receiver and the amount exchanged. Anonymization tools, the so called Mixers²³, are being used to allow users to pool, mix and redistribute their crypto-assets, obfuscating the flow of the transaction and/or enabling the mixing of illicit funds with

¹⁹ CySEC Announcement, 6 February 2014. Available at: <https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=cc704672-bfa8-46f1-b51e-5067dd6c6f75>

CySEC Announcement, 13 October 2017. Available at: <https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=4436a24d-05f5-4290-9008-e17d345b99f6>

CySEC Announcement, 15 November 2017. Available at: <https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=d8d643c1-74f9-4723-98b6-e5e8c79be7fa>

CySEC Announcement, 14 February 2018. Available at: <https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=b286d3e9-88cd-45bb-8cd3-8d75e06e3c0d>

²⁰ A transaction cannot be linked to a specific sender.

²¹ A transaction may be linked to a specific sender when undertaken on the blockchain.

²² See Financial Times, 22 June 2021: “*Monero emerges as crypto of choice for cybercriminals*”. Available at: <https://www.ft.com/content/13fb66ed-b4e2-4f5f-926a-7d34dc40d8b6>

²³ See Financial Times, 28 May 2021: “*The rise of crypto laundries: how criminals cash out of bitcoin*”. Available at: <https://www.ft.com/content/4169ea4b-d6d7-4a2e-bc91-480550c2f539>

clean crypto-assets. In addition to the aforesaid, the emergence of decentralised exchanges and peer to peer transactions, may add further layers of complexity.

1.2.8. The ML/FT risks involved are further elaborated in the National Risk Assessment of Cyprus in relation to crypto-assets.

1.3. NATIONAL TRANSPOSITION OF AMLD5

1.3.1. BACKGROUND INFORMATION ON THE NATIONAL TRANSPOSITION OF AMLD5

1.3.1.1. To address the ML/TF risks emanating from crypto-assets at EU level, the scope of the EU AML/CFT framework was expanded to include the so-called “custodian wallet providers” and “providers engaged in exchange services between virtual currencies and fiat currencies”, by defining them as obliged entities under AMLD5. However, since the adoption of AMLD5 on 30 May 2018, the crypto-space evolved creating new risks and/or exacerbating the existing ones, as described in Section 1.2 above.

As consequence the FATF:

- i. Amended its Recommendations²⁴ in October 2018, to clarify that they cover both crypto-assets per se and related service providers;
- ii. Adopted an Interpretative Note to Recommendation 15 (INR 15)²⁵ in June 2019 to further clarify how the FATF requirements apply in the case of crypto-assets and related service providers;
- iii. Adopted new Guidance²⁶ on the application of the risk-based approach in June 2019.

1.3.1.2. In the context of the work undertaken for the national transposition of AMLD5, the Cyprus Securities and Exchange Commission (“CySEC”) published a Consultation Paper on 19 February 2019 (“CP-01-2019”), regarding the amendment of the Prevention and Suppression of Money Laundering and Terrorist Financing Law of 2007 (the “AML/CFT Law”), in order to impose AML/CFT-related obligations, in relation to crypto-assets’ activities.

²⁴ FATF, October 2018 (the “Amended FATF Recommendations”), available at: <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf>

²⁵ FATF, June 2019, (the “FATF INR 15 Interpretative Note”) available at: <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/public-statement-virtual-assets.html>

²⁶ FATF, June 2019, Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, available at: <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/guidance-rba-virtual-assets.html>

1.3.1.3. By means of CP-01-2019 (available [here](#)) and taking into account the Amended FATF Recommendations (which was the only available FATF update at the time), CySEC proposed that in the context of transposing the relevant provisions of AMLD5 into national Law, to also include the following crypto-assets' activities under the AML/CFT obligations (which were not included in AMLD5):

- i. exchange between crypto-assets;
- ii. transfer of crypto-assets; and
- iii. participation in and provision of financial services²⁷ related to an issuer's offer and/or sale of a crypto-asset.

1.3.1.4. In CySEC's view, such extension was necessary and proportionate in order to address the AML/CFT risks emanating from crypto-assets' activities in a comprehensive manner.

1.3.1.5. CySEC received feedback from market participants, legal practitioners and organised bodies and associations, the vast majority of which agreed with the proposed approach. The feedback received, helped CySEC to inform its view on the subject matter, as a member of the Advisory Authority for Combating Money Laundering and Terrorist Financing, established under section 56 of the AML/CFT Law (**the "AML/CFT Advisory Authority"**).

1.3.1.6. The amended AML/CFT Law was published in the Official Gazette of the Republic on 23 February 2021²⁸ and is largely aligned with CySEC proposals under CP-01-2019. Under the amended AML/CFT Law, Crypto Asset Services Providers ("**CASPs**") that provide their services in or from Cyprus, qualify as obliged entities within the meaning of the AML/CFT Law and are therefore subject to all AML/CFT obligations. Under the AML/CFT Law, CASPs must be registered with CySEC, except for entities that are domiciled in another EEA Member State and which are registered with an EEA National Competent Authority, under the respective national Law transposing AMLD5.

Furthermore, the amended AML Law provides, inter alia, for:

- i. The fitness and probity of the shareholders and executives of CASPs;
- ii. The conditions in relation to CASPs registration with CySEC, which may be further elaborated by means of CySEC Directive;
- iii. Organisational and operational requirements, which may be further elaborated by means of CySEC Directive;
- iv. Deregistration and sanctioning; and

²⁷ Further defined in the AML/CFT Law. See Section 1.3.2 of this Policy Statement.

²⁸ Available at: <https://www.cysec.gov.cy/en-GB/legislation/financial-crimes/KYPIA-NOMOTHEΣIA/>

- v. Registration fees and charges.

1.3.2. KEY PROVISIONS OF AML/CFT LAW IN RELATION TO CRYPTO-ASSETS AND CLARIFICATIONS

1.3.2.1. For the purpose of facilitating the reading of this Policy Statement and pending the full translation of the AML/CFT Law into English, we provide an unofficial English translation of selected provisions of the AML/CFT Law that are key in grasping a full understanding of our approach.

1.3.2.2. It is stressed that the below compilation of certain provisions of the AML/CFT Law is provided solely for the purposes of facilitating the reading of this Policy Statement and does not constitute as exhaustive analysis of CASPs obligations under the said Law. CASPs are defined as Obligated Entities, under the AML/CFT Law and hence they must comply at all times with all of their responsibilities stemming thereof (e.g. obligation to perform client KYC and other client due diligence measures, obligation to undertake a risk assessment in relation to their operations, obligation to monitor the transactions of their clients, obligation to report suspicious transactions etc.).

1.3.2.3. Having regard to the above, as per the relevant provisions of the AML/CFT Law, in relation to Crypto-assets:

- i. **“board of directors”** means the board, committee and/or body of an entity that has the power to set the strategy, objectives, and general direction of that entity and oversees and monitors management decision-making, including a person who effectively directs the business activities of that entity
- ii. **“CASP beneficiary”** means a natural or a legal person which, either individually or in concert with other persons, holds, directly or indirectly, in a CASP –
 - a) a qualifying holding, or
 - b) a holding whereby the proportion of the voting rights or of the capital held by it reaches or exceeds the thresholds of twenty per cent (20 %), thirty per cent (30 %) or fifty per cent (50 %), or
 - c) a holding whereby the CASP becomes a subsidiary of that person;

- iii. **“Crypto-asset”**²⁹ means a digital representation of value that is neither issued nor guaranteed by a central bank or a public authority, it is not necessarily attached to a legally established currency and does not possess a legal status of currency or money, but it is accepted by natural or legal persons as a means of exchange and which can be transferred, stored, and traded electronically, and it is not-
 - a) fiat currency, or
 - b) electronic money, or
 - c) financial instruments, as these are specified in Part III of the First Appendix to the Investment Services and Activities and Regulated Markets Law;
- iv. **“Crypto Asset Services Provider” or “CASP”**³⁰ means a person who provides or exercises one or more of the following services or activities to another person or on behalf of another person, which do not fall under the services or activities of the obliged entities mentioned in paragraphs (a) to (h) of article 2A of the AML/CFT Law:
 - a) Exchange between crypto-assets and fiat currencies;
 - b) Exchange between crypto-assets;
 - c) Management, transfer, holding and/or safekeeping, including custody, of crypto-assets or cryptographic keys or means which allow the exercise of control over crypto-assets;
 - d) Offering and/or sale of crypto-assets, including the initial offering; and
 - e) Participation and/or provision of financial services regarding the distribution, offer and/or sale of crypto-assets, including the initial offering;
- v. **“Electronic money”** shall have the meaning ascribed to this term pursuant to the provisions of section 2 of the Law on Electronic Money, but with the exception of the monetary value as referred to in paragraphs (a) and (b) of section 3(2) of the said Law;

²⁹ The definition is reproduced in paragraphs 1.1.6 and 1.1.7, where Crypto-assets are defined.

³⁰ For the avoidance of doubt, it is clarified that the term Virtual Assets and Virtual Asset Services Providers used in the national risk assessment, means Crypto Assets and Crypto Asset Services Providers for the purposes of this Policy Statement.

- vi. **“Financial Services Relating to the Distribution, Offering and/or Sale of Crypto-Assets”** means the following services and activities relating to crypto-assets:
- a) Reception and transmission of orders;
 - b) Execution of orders on behalf of clients;
 - c) Dealing on own account;
 - d) Portfolio management;
 - e) Provision of investment advice;
 - f) Underwriting and/or placing of crypto assets with a firm commitment;
 - g) Placing of crypto-assets without a firm commitment;
 - h) Operation of a multilateral system, which brings together multiple third-party buying and selling interests in crypto-assets in a way that results in a transaction.
- vii. **“fiat currency”** means lawfully established currency;
- viii. **“information”** means any form of written or oral information or documents and includes information which may be registered in a computer;
- ix. **“lawfully established currency”** means currency that was established and introduced-
- a) under the provisions of the Central Bank of Cyprus Law,
 - b) By the European Central Bank or, by virtue of a power conferred by the European Central Bank, or
 - c) in any other Country, by an issuing authority which has legal authority to issue banknotes or coins;
- x. **“legal person”** means any entity having legal personality, except for states or public bodies in the exercise of state authority and for public international organisations
- xi. **“occasional transaction”** means any transaction other than a transaction which is carried out during the duration of a business relationship.
- xii. **“person”** means natural or legal person;

- xiii. **“persons holding a management position”** means the natural persons who constitute the board of directors of an obliged entity and/or who perform the executive functions within the obliged entity and who are responsible and accountable to the board of directors for its day-to-day management;
- xiv. **“property”** means assets of any kind, whether corporeal or incorporeal, movable assets including cash, immovable assets, tangible or intangible, crypto assets, electronic money, and legal documents or instruments in any form including electronic or digital, evidencing title to or an interest in such asset.
- xv. **“qualifying holding”** means a direct or indirect holding in a CASP, which-
 - a) represents at least ten percent (10%) of the capital or rights of the CASP, in accordance with sections 28, 29 and 30 of the Transparency Requirements (Securities Admitted to Trading on a Regulated Market) Law³¹, taking into account the conditions for their aggregation laid down in sections 34 and 35 of said Law, or
 - b) allows significant influence over the management of the CASP in which such participation exists.
- xvi. **“senior management”** means an officer or employee with sufficient knowledge of the institution's money laundering and terrorist financing risk exposure and sufficient seniority to take decisions affecting its risk exposure, regardless of whether or not such person is a member of the entity’s board of directors; Provided that the ‘senior management official’³² need not be a member of the board of directors of the obliged entity.
- xvii. **“Third country”** means a country not a member of the European Union or contracting party to the agreement of the European Economic Area signed in Porto on the 2nd of May 1992 and was adjusted with the Protocol signed in Brussels on 17 May 1993, as amended.
- xviii. **“transfer of crypto-assets”** means carrying out a transaction for the account of another person, by way of which a crypto-asset is being

³¹ Available at: <https://www.cysec.gov.cy/en-GB/legislation/issuers/TRANSPARENCY/>

³² According to Section 58C of the AML/CFT Law, the Senior management officials of the obliged entity approve the policies, procedures and controls applied by the obliged entity in relation to money laundering and terrorist financing, as well as monitor, and where appropriate, enhance the measures adopted.

transferred from one address or account to another address or account;

- xix. **According to Section 2A(I) of the AML/CFT Law** *“The provisions of the present Law apply to the following persons:... (I) Providers of services concerning Crypto Assets, who are registered with the register provisioned as per section 61E (1)”*;
- xx. **According to Section 59(1)(b)(vii) of the AML/CFT Law:** *“59.-(1) Supervisory Authorities, in relation to obliged entities are-... (b) the Securities and Exchange Commission... (vii) in relation to the services and activities provided by the Crypto Asset Services Providers, which shall be entered in the register provided for in paragraph (1) of section 61E”*;
- xxi. Without prejudice to the other measures that CySEC may take against a CASP (including administrative sanctions and prohibition to physical persons to discharge certain functions), **according to Section 59(6)(iii) of the AML/CFT Law, CySEC is empowered:** *“To amend or suspend or withdraw the license of operation of the supervised person, and in the case of a Crypto Asset Services Provider which is supervised by CySEC, to amend or suspend its entry in the register provided for in section 61(E)1 or remove it from the register”*;
- xxii. **According to Section 60(g) of the AML/CFT Law:** *“Obliged entities apply customer due diligence measures in the following cases:... (g) For Crypto Asset Services Providers, when they carry out occasional transactions amounting to one thousand Euro (€1.000) or more, regardless of whether the transaction is carried out in a single operation or in several operations which appear to be linked.”*. This is without prejudice to the obligation of a CASP to apply due diligence measures pursuant to any other paragraph of Section 60 of the AML/CFT Law;
- xxiii. **According to Section 61E of the AML/CFT Law:**
 - “61E– (1)(a) The Cyprus Securities and Exchange Commission shall establish and maintain a Register of Crypto Asset Services Providers.*
 - (b) The Cyprus Securities and Exchange Commission shall publish the Register on its website or in any other way it may decide.*
 - (c) The Cyprus Securities and Exchange Commission may determine by way of a Directive how the Register shall be operated, maintained, kept, and updated.*

(2) The following shall be registered in the Register:

(a) CASPs providing or carrying out services or activities on a professional basis from the Republic, regardless of whether they are registered in another Member State's register for the services or activities they provide.

(b) CASPs providing services or carrying out activities on a professional basis in the Republic, with the exception of persons providing services or carrying out activities in the Republic in relation to crypto-assets, and who are registered in a Member State's register for the services or activities they provide.

(3) Subject to the provisions of paragraph (2), the CASP must submit an application to the Cyprus Securities and Exchange Commission in order to be registered in the Register.

(4) A person who is not registered in the Register may provide services or carry out activities related to crypto-assets in the Republic, provided that its entry in the register of a Member State is valid for the services or activities it provides or carries out.

(5) The Cyprus Securities and Exchange Commission may:

(a) approve or reject an application for registration on the basis of the conditions laid down in a Directive of the Cyprus Securities and Exchange Commission;

(b) remove a registered CASP from the Register or suspend their registration, subject to the terms and conditions set out in a Directive of the Cyprus Securities and Exchange Commission, and

(c) modify a registration of a CASP, at the request of the CASP, in accordance with the procedure set out in a Directive of the Cyprus Securities and Exchange Commission.

(6) (a) A CASP shall meet the conditions of its registration in the Register at all times and shall notify the Cyprus Securities and Exchange Commission of any material changes.

(b) By way of a Directive, the Cyprus Securities and Exchange Commission may determine the registration requirements, which, when changed are deemed to form a material change and the material changes that may be approved by the Cyprus Securities and Exchange Commission.

(7) (a) A CASP must adopt and implement organisational and operational requirements.

(b) The Cyprus Securities and Exchange Commission may, by way of a Directive, determine the organisational and operational requirements to be implemented by each CASP.

(8) (a) A CASP must pay to the Cyprus Securities and Exchange Commission fees and/or charges for the registration and renewal of registration with the Register, as well as for the submission and examination of requests, applications, notices and/or notifications.

(b) The Cyprus Securities and Exchange Commission may, by way of a Directive, determine the amount of the fees and/or charges mentioned in subparagraph (a).

(c) The fees and charges paid under the provisions of subparagraph (a) shall be regarded as revenue of the Cyprus Securities and Exchange Commission and in the event of failure to pay, judicial measures shall be taken, in addition to any other measures laid down in this Law, for their collection as a civil debt.

(9) (a) Persons holding a management position in a CASP must always be competent and honest, pursuant to the specifications provided for in a Directive of the Cyprus Securities and Exchange Commission, and shall ensure compliance of the CASP, in which it holds a management position, with the obligations to which it is subjected under this section and under the Directive issued pursuant thereto.

(b) The Cyprus Securities and Exchange Commission shall evaluate the competence and honesty of the persons holding a management position in a CASP, according to the criteria and the procedure determined by way of a Directive.

(c) The Cyprus Securities and Exchange Commission may determine by way of a Directive the obligations of the persons holding a management position in a CASP, with which they must comply at all times.

(d) A CASP must ensure that the persons holding a management position comply with the provisions of this paragraph and with the provisions of the Directive issued pursuant to subparagraph (c).

(10) (a) The beneficiaries of a CASP must at all times be competent and honest persons, as specified in a Directive of the Cyprus Securities and Exchange Commission.

(b) The Cyprus Securities and Exchange Commission shall evaluate the competence and honesty of the persons who are beneficiaries in a CASP, according to the criteria and the procedure determined by

way of a Directive of the Cyprus Securities and Exchange Commission.

(c) The Cyprus Securities and Exchange Commission may specify by way of a Directive, the obligations of the persons who are beneficiaries in a CASP with which they must comply at all times.

(d) A CASP must ensure that the persons who are its beneficiaries, comply at all times with the provisions of this subparagraph and with the Directive issued pursuant to subparagraph (c).

(11) (a) Without prejudice to any other provisions of this Law which provide for the issuance of Directives, the Cyprus Securities and Exchange Commission may issue a Directive regulating, determining and/or specifying any other matter that needs or may be regulated, determined and/or specified in relation to this section.

(b) Compliance with the Directives issued pursuant to this section is mandatory for the persons to whom they are addressed and breach of their provisions constitutes a breach of the provisions of this section, under which it was issued.

(12) For the purposes of this Law "Register" means the Register of Crypto-Asset Services Providers provided for in paragraph (1)."

- 1.3.2.4.** Where any of the above terms is used in this Policy Statement shall take the meaning ascribed to it in this subsection. Any other term shall take the meaning ascribed to it by means of the AML/CFT Law, the CySEC Directive for the prevention and suppression of money laundering and terrorist financing (Register of Crypto Asset Service Providers) and the CySEC Directive for the Prevention and Suppression of Money Laundering and Terrorist Financing.

INTERPLAY BETWEEN THE ACTIVITIES REFERRED TO IN THE DEFINITION OF CASP AND THE DEFINITION OF FINANCIAL SERVICES RELATING TO THE DISTRIBUTION, OFFERING AND/OR SALE OF CRYPTO-ASSETS

- 1.3.2.5.** Interested parties have indicated that the definitions of "CASP" and "Financial Services Relating to the Distribution, Offering and/or Sale of Crypto-Assets" of the AML/CFT Law, include certain services and activities, some of which may overlap, requesting further clarity on the subject matter.

- 1.3.2.6.** In our view the activities referred to in those two definitions shall be read on a cumulative basis and depending on the business model involved and the contractual relationships established between the relevant CASP(s) and the clients, the respective services shall be deemed relevant. The particularities of the crypto-space are also relevant, e.g. the direct access of clients to entities that engage in the "Operation of a multilateral system, which brings together multiple third-party buying and selling interests in crypto-assets in

a way that results in a transaction”, whereas in the case of securities such access to the respective markets is achieved indirectly through executing brokers who are members to the said exchange and such indirect access is prescribed and fostered by Law.

1.3.2.7. For instance the activities of *“Exchange between crypto-assets and fiat currencies”* and *“Exchange between crypto-assets”*, in our view describe an end result, which may be achieved through combination of other services and/or activities.

For example:

- i. It may be achieved through *“Participation and/or provision of financial services regarding the distribution, offer and/or sale of crypto-assets, including the initial offering”*. In such cases, depending on the business model involved and on the contractual relationships established, the end result may be achieved:
 - a. Through the *“execution of orders on behalf of clients”* in conjunction with *“dealing on own account”*; or
 - b. Through the *“Operation of a multilateral system, which brings together multiple third-party buying and selling interests in crypto-assets in a way that results in a transaction”* in conjunction with *“execution of orders on behalf of clients”*.
- ii. Where there are trilateral contractual relationships between two EEA based CASPs (e.g. EEA CASP A and EEA CASP B) and the clients, the end result may be achieved again by means of *“Participation and/or provision of financial services regarding the distribution, offer and/or sale of crypto-assets, including the initial offering”*, but in this case through *“Reception and transmission of orders”* by CASP A to CASP B who (CASP B) might be *“dealing on own account”* or *“Operating of a multilateral trading system, in which buying and selling interests in crypto-assets can interact in a way that results in a transaction”*.

1.3.2.8. In cases of initial offerings, this might be either

- i. directly performed by the project owner, where the activity of *“Offering and/or sale of crypto-assets, including the initial offering”*³³ is relevant; or
- ii. through the intermediation of a third party, where the activity of *“Participation and/or provision of financial services regarding the distribution, offer and/or sale of crypto-assets, including the initial*

³³ This activity might also be relevant in the previous example in the case of *“Dealing on own account”*, as the CASP might be considered as a direct point of sale.

offering” is relevant, in conjunction with providing the service of *Placement of crypto-assets with or without a firm commitment*, as the case may be, to the project owners and the service of *“Reception and transmission of orders”* and/or *“execution of orders on behalf of clients”* to consumers.

1.3.2.9. Where safekeeping of crypto-assets is involved, the activity of *“Management, transfer, holding and/or safekeeping, including custody, of crypto-assets or cryptographic keys or means which allow the exercise of control over crypto-assets”* is also relevant.

1.3.2.10. All in all, our understanding is that the definitions were intended to capture all possible crypto-assets’ activities and therefore more than one activities and/or services might be relevant in certain cases depending on details entailed.

1.4. PURPOSE OF THIS POLICY STATEMENT

1.4.1. CySEC has published this Policy Statement in order to outline its approach on the principles contained into the AML/CFT Law in relation to CASPs’ activities, as have been elaborated by means of the CySEC Directive for the prevention and suppression of money laundering and terrorist financing (Register of Crypto Asset Service Providers) as amended³⁴, an unofficial translation and consolidation of which is provided in **Appendix 1** of this Policy Statement.

1.4.2. In addition to the above, by means of this Policy Statement, CySEC sets out its expectations for the compliance of CASPs with the regulatory framework, including certain specific expectations in relation to the compliance of CASPs with their obligations under the CySEC Directive for the Prevention and Suppression of Money Laundering and Terrorist Financing (available [here](#)).

1.5. WHO THIS CONCERNS

1.5.1. This Policy Statement concerns CASPs as defined in the AML/CFT Law providing or carrying out services or activities on a professional basis in or from the Republic.

1.5.2. Other regulated entities might be impacted, particularly by Section 2.3 of this Policy Statement.

1.5.3. Customers purchasing, holding or transferring crypto assets will be also impacted by this Policy Statement to the extent they resort to the services of a CASP.

³⁴ The CASP Registration Directive, preceded the issuance of PS-01-2021. In the meantime, we have slightly amended our rules based on the feedback received by interested parties, providing further clarity on territorial and procedural issues. The amendments appear in red fonts in Appendix 1.

2. OUR APPROACH.

2.1. GENERAL INFORMATION AND TERRITORIAL SCOPE

2.1.1. CASPs are obliged entities under the AML/CFT Law and they must therefore fully abide to their obligations stemming from the AML/CFT Law, the CySEC Directive for the prevention and suppression of money laundering and terrorist financing - Register of Crypto Asset Service Providers (**the “CASP Registration Directive”**) and the CySEC Directive for the Prevention and Suppression of Money Laundering and Terrorist Financing (**collectively hereinafter the “Cumulative CASP Rules”**), including but not limited to their obligations: to preform Know Your Client and other client due diligence measures, draw the economic profile of the their clients, identify the source of funds of their clients, monitor the clients’ transaction, identify and report suspicious transactions, undertake a comprehensive risk assessment in relation to their clients and activities undertaken and take proportionate measures per client, activity and crypto-asset in question etc.

2.1.2. CASPs operating from Cyprus must be registered with CySEC in order to be able to provide services and/or perform activities in relation to crypto-assets and will be regulated by CySEC under the Cumulative CASP rules. For the avoidance of doubt, where a CASP is established in another EEA Member State or in a Third Country, but provide services **from** Cyprus under any form and/or arrangement, will be operating **from** Cyprus in relation to the service and/or activities originating therefrom and will be subject to registration and supervision under the Cumulative CASP Rules.

2.1.3. EEA domiciled CASPs who are registered with the EEA NCA of the respective Member State for the relevant services and/or activities and who as per Section 61E(2)(b) of the AML/CFT Law are exempted from the obligation to be registered with CySEC when providing services and/or undertaking activities in relation to crypto-assets **in** Cyprus, must submit to CySEC a notification form (see Appendix 2) providing sufficient evidence in relation to their valid registration with the said EEA NCA for the purposes of the respective national legislation transposing AMLD5 (**the “EEA NCA Register”**), before they commence their operations **in** Cyprus. Where such entities are registered with more than one EEA NCA, they must provide the relevant information requested by means of the notification form and the evidence in relation to their valid registration per EEA NCA Register. CySEC will list the EEA CASPs that operate in Cyprus, under the exemption provided for in Section 61E(2)(b) of the AML/CFT Law (**the “EEA CASPs”**) on its website, providing relevant information per EEA CASP (**the “EEA CASPs List”**). Such entities must inform CySEC of any suspension or deregistration from the register of any NCA and of any other measures that may have been taken against them pursuant to the respective national legislation, transposing AMLD5. Depending on the measures in question, CASPs may be deemed as ineligible to continue operating under the exemption of Section 61E(2)(b) of

the AML/CFT Law and CySEC may decide to remove such entities from the EEA CASPs List.

2.1.4. CASPs registered in a Third Country, must be registered with CySEC in order to be able to provide services and/or perform activities, in relation to crypto-assets in Cyprus and will be regulated by CySEC under the Cumulative CASP Rules. However such registration is contingent to CySEC being satisfied with such entities compliance with the Cumulative CASP Rules, taking into account inter alia, their organisational and operational specificities, their geographical location, whether such entities are subject to an oversight by a competent authority in that third country, whether there are established communication channels between CySEC and the said competent authority and whether a remote registration is likely to undermine CySEC's ability to efficiently supervise and/or enforce the Cumulative CASP Rules. Without prejudice to a case by case evaluation, the latter is more likely to be met where the services and/or activities in question are undertaken on a limited scale, e.g. services provided to institutional counterparties such as Cyprus based CASPs who are registered with CySEC and who are subject to supervision, rather than services in relation to consumers. Third Country CASPs registered with CySEC, will be listed in a bespoke section on CySEC's website.

2.2. KEY OBLIGATIONS AND CYSEC'S EXPECTATIONS

2.2.1. REGISTRATION REQUIREMENTS

2.2.1.1. As per the CySEC Directive on CASPs Registration, the prospective CASPs (**the "Applicants"**) must submit the relevant application form issued by CySEC for the registration in the CySEC CASP Register (**the "CASP Application Form"**), duly completed, which must inter alia include information in relation to:

- i. the name, trade name, legal form and legal entity identifier of the CASP;
- ii. the physical address of the CASP;
- iii. the services provided and/or the activities that the CASP may carry out as defined in subparagraphs (a) to (e), in the definition of "*Crypto Asset Services Provider*" in paragraph (1) of section 2 of the Law;
- iv. the website of the CASP;
- v. all public addresses of crypto-assets and/or of public keys/digital wallets controlled by the CASP that are used or can be used in the operation of the CASP in relation to each crypto-asset (**the "Crypto-Assets Addresses"**);
- vi. The crypto-assets in relation to which they engage in any activity;

- vii. Whether the CASP accepts other CASPs as customers or not;
- viii. Whether or not the CASP offers business payment services in crypto-assets to vendors;
- ix. Whether the CASP operates Crypto-Assets-ATMs, the number and the geographical location thereof;
- x. Whether the CASP is registered or supervised in any other jurisdiction;
- xi. All documents and/or additional information specified in the CASP Application Form.

2.2.1.2. Applicants are expected to be in a position to satisfy CySEC in relation to the following, with which upon registration, CASPs must comply on an ongoing basis, at all times (section 61E(6)(a) of the AML/CFT Law):

- i. The persons holding a management position in the CASP must be honest and competent, which is fulfilled if the persons have a good reputation, knowledge, skills and experience and devote sufficient time to the performance of their duties. In the case of the Board of Directors, the Board of Directors shall be comprised of at least four (4) members, two (2) of which must direct the business activities of the CASP and two (2) must be independent members, within the meaning of the CASP Registration Directive.

What we expect:

Application Stage

We expect applicants to be in a position to demonstrate the “*good reputation*”, the “*skills*” and the “*experience*”, in line with the provisions of Paragraph 6(2)(b) of the CASP Registration Directive. Evidence of clean criminal record in relation to “*relevant offences*” within the meaning of the CASP Registration Directive, will be required, as well as information in relation to any possible past or ongoing regulatory, administrative or criminal proceedings or information on possible rejection of the respective person by any competent authority and the reasons thereof. The relevant information will be gathered by means of questionnaires, which may include any additional information deemed as necessary. CySEC will undertake its own due diligence in relation to the relevant persons; however the responsibility to satisfy CySEC in relation to the aforesaid areas (good reputation, skills, and experience) lies with the applicant. Where reasonable doubt exists as to any of the evaluated areas, CySEC will reject the proposed persons and depending on the case, may reject the application as a whole. We also expect that there is a bespoke section in the Internal Operations Manual (“**IOM**”), in relation to the Recruitment Policy of the CASP, which shall reflect the requirements in relation to the good reputation, skills and experience,

and which shall elaborate further, specifying the requirements of the respective CASP, the procedures followed and the evidence gathered for ensuring the compliance of the CASP with its obligations referred to in point i above and the procedure to be followed for the re-evaluation and where necessary the removal of persons who do not meet the fitness and probity criteria any more.

Ongoing Basis

We expect CASPs to ensure that the relevant persons are fit and proper at all times and where necessary we expect CASPs to take reasonable and proportionate actions, including dismissing such persons where deemed necessary. The CASPs must also ensure that the relevant policies and procedures remain updated and that they are adequately reflected in the IOM.

- ii. The beneficiaries of CASPs are honest and competent, which is fulfilled if they have a good reputation and the ability to maintain the strong financial position of the CASP.

What we expect:

Application Stage

We expect applicants and the beneficiaries thereof to be in a position to demonstrate the ability of the beneficiaries to maintain the strong financial position of the CASP and their good reputation. Their reputation will be evaluated in accordance with the same criteria and procedures (including through gathering information via relevant questionnaires) as in the case of the persons holding a management position. In relation to the ability of the beneficiaries to maintain the sound financial position of the CASP, the beneficiaries must be in a position to satisfy CySEC that the source of their wealth does not create increased ML/FT risks and that they are able to ensure the sound and prudent management of the CASP in the foreseeable future (usually three years). To this end, they will, inter alia, be required to fully disclose their net financial position which shall be adequate to ensure the smooth operations of the CASP in the foreseeable future, under a stressed scenario, formulated by the applicant, on the basis of relevant financial projections. The said scenario must be underpinned by a risk assessment and must be included in the applicant's Business Plan. In the case of existing businesses, the financial position of the CASP, shall be also taken into account. In the case of a group or indirect holdings, applicants must be in a position to explain the rationale underpinning the said structure.

The policies and procedure of the CASP must ensure that the relevant persons remain fit and proper at all times and that there are

documented clear predefined triggers for the implementation of specific redress mechanisms.

Ongoing Basis

We expect CASPs to ensure that the relevant persons are fit and proper at all times and if triggered that the redress mechanisms will be activated.

- iii. The close links between the applicant and other natural or legal persons do not preclude the effective monitoring, evaluation and supervision by CySEC. Where the natural or legal person with whom the applicant has a close connection is in a Third Country, the laws, regulations or administrative provisions of the Third Country shall not impede the effective performance of the supervisory functions.

What we expect:

Application Stage

Applicants must be in a position to satisfy CySEC that their group structure, does not undermine the ability of CySEC to effectively perform its supervisory functions and does not create any undue risk. We expect the applicants to be in a position to explain the rationale underpinning their group structure and the close links stemming thereof, to identify any possible risks emanating from the said close links, by means of a risk assessment and to demonstrate any mitigation measures taken to this end. The impact of the close links on the ability of CySEC to effectively monitor, evaluate and supervise the CASP, will be evaluated on broad basis, by taking into account, inter alia, the reputation of the relevant persons, their geographic location (including whether ML/FT risks are stemming thereof) and the operations of the said persons. Where there are no established adequate communication channels between CySEC and a Competent Authority in the said geographic location, ensuring the seamless gathering and sharing of information with CySEC in relation to the said persons, it is highly unlikely that the respective close links would be considered to satisfy the requirement referred to in point iii. In the case of third countries, an adequate communication channel will be considered to exist where there is a bilateral MoU between CySEC and a respective Competent Authority, which is considered by CySEC to effectively cover the areas of CySEC's interest or where there is a National Competent Authority which is an Appendix A signatory of the IOSCO MoU.

The policies and procedure of the CASP must ensure that their close links meet the requirements referred to in point iii above at all times and that there are documented clear predefined triggers for the implementation of specific redress mechanisms.

Ongoing Basis

We expect CASPs to ensure that the close links are at all times compliant with the requirements of point iii above and if triggered that the redress mechanisms will be activated.

We also expect that the risk assessment is regularly revisited.

- iv. When operating online, a website fully owned and exclusively used by the CASP must be maintained, through which the CASP will operate, without the possibility of any other person to operate through it, except for cases where the applicant is in a position to satisfy CySEC that its policies and procedures may sufficiently address the operational risks stemming therefor, including any possible consumers' detriment and that such risks were identified by means of a risk assessment and are adequately mitigated by the policies and procedures that the CASP has in place.

What we expect:

Application Stage

Applicants shall disclose all the websites through which they will be operating and except for cases otherwise approved by CySEC, must be in a position to provide evidence in relation to the full ownership of the said websites and to attest that there is no other person currently operating through the said websites nor there will be in the future. This shall be also reflected in the CASPs' IOM.

Ongoing Basis

We expect an ongoing compliance with the above.

- v. There have been established appropriate policies and procedures to ensure its compliance, including the compliance of its executives, employees and persons to whom functions are assigned to, in accordance with the AML/CFT Law and the AML/CFT Directive.

What we expect:

Application Stage

The said policies and procedures must be elaborated in detailed in the IOM and in the AML/CFT Manual and must cover all risks and vulnerabilities and the relevant mitigation policies and procedures, which shall be identified in accordance with a comprehensive risk assessment undertaken by the CASP, including an evaluation of appropriate measures to address any deficiencies of third-party providers/contractors (i.e. third party risk). The IOM and the AML/CFT

manual must also include the events that would trigger an ad-hoc re-evaluation of the policies and procedures, the relevant timeframes for the conclusion of the said re-evaluation and for any additional actions to be taken.

The policies and procedures documented by means of the IOM and the AML/CFT Manual, must be also aligned with provisions of the AML/CFT Law and of the AML/CFT Directive (see section 2.2.2).

Ongoing Basis

The said risk assessment must be updated at least annually and in any case where new risks emerge or where it is deemed that an update is necessary.

We expect that there will be appropriate monitoring and evaluation on a regular basis in relation to the adequacy and effectiveness of the policies and procedures and full compliance with the obligations referred to in point v above.

- vi. CASPs must establish appropriate policies and procedures and must have appropriate systems and controls in place to ensure their prudent operation, including minimizing the risk of theft or loss of their clients' crypto-assets.

What we expect:

Application Stage

We expect a detailed elaboration of the policies and procedures to be included in the IOM, a description of the systems used and their utility and where such systems are externally commissioned, they must be specified. The IOM must also include a description on the factors and rationale underpinning the evaluation and selection of such systems and the relevant procedures for the ongoing monitoring of their effective functioning. An analysis on the risks involved must be undertaken and shall include the respective mitigating measures. The risk assessment shall take into account the entire spectrum of operations of the CASP and the risks stemming thereof must be identified and categorised, along with the respective mitigating measures. The IOM must also include the events triggering an ad-hoc re-evaluation and the relevant timeframes for the conclusion of the said re-evaluation and for any additional actions to be taken.

Interested parties may also wish to consider seeking for certification under the [standards in the ISO/IEC 27000 family](#).

In relation to minimizing the risk of theft or loss of crypto-assets, we herewith provide a non-exhaustive list of best practices:

1. Restrict the amount of crypto assets held in hot wallets in line with a relevant risk assessment taking into account all relevant risks, including the concentration risk and in any case ensure that the necessity of keeping a certain amount of crypto-assets in hot wallets is justified on reasonable and demonstrable grounds;
2. Introduce and apply different layers of approval for a transaction to be undertaken; by designating specific persons authorised to initiate a transaction and specific persons authorised to approve such transactions. The transaction may be initiated by persons authorized to initiate such transactions and proceed only if they are approved by a person authorized to approve the undertaking of a transaction. The criteria for the recruitment of such persons must be included in the recruitment policy of the CASP;
3. Segregate through “*Chinese walls*” the persons responsible for initiating the transactions and the persons responsible for approving the transactions;
4. Where third party hot wallets are being used, a due diligence must be undertaken per hot wallet provider taking into account, inter alia, the geographic location of the said provider, whether it is subject to supervision and whether it is of good repute;
5. Where crypto-assets are being stored off-chain (i.e. in cold wallets), CASPs shall undertake a risk assessment, in relation to the risks involved, including in relation to the concentration risk stemming from the geographic location of the storing facilities. In any case they must use secured facilities, where only specific designated persons may have access to;
6. Daily reconciliations at record keeping level and during regular intervals actual stocktaking in relation to the crypto-assets held in cold wallets, to confirm that the corresponding amount is indeed still in the relevant facilities.

Ongoing Basis

We expect that there will be appropriate monitoring and evaluation on a regular basis in relation to the adequacy and effectiveness of the policies and procedures, of the systems used, of the controls employed and of the risk assessment.

CASPs must ensure full compliance on an ongoing basis.

- vii. CASPs must have sufficient own funds comprised of fixed and variable component, in accordance with paragraph 14³⁵ of the CASP Registration Directive.

What we expect:

Subject to the phasing-in provided for in Paragraph 17 of the CASP Registration Directive, we expect CASPs to meet the capital adequacy requirements, in accordance with Paragraph 14 of the said Directive.

Where a CASP is a Cyprus Investment Firm is subject to the prudential requirements for Cyprus Investment Firms.

- viii. The performance of its staff shall not remunerated or evaluated in a way that conflicts with the CASP duty to act in the best interest of its clients and in particular, the CASP shall not proceed with any arrangements in the form of remuneration, sales targets or otherwise, which could motivate its staff to implement aggressive promotion practices of products or services.

What we expect:

Application Stage

We expect applicants to include a bespoke section on their remuneration policy in the IOM, analyzing in detail, per employee category, per department, how they will be remunerated. An explanation as to how the said way of remuneration is compatible with the requirements of the CASP Registration Directive must be also provided.

Ongoing Basis

On an ongoing basis we expect CASPs to ensure that their remuneration policy is updated and in line with their obligations pursuant to the AML/CFT Law and the CASP Registration Directive. We also expect that the remuneration in practice is indeed in line with the requirements of the CASP Registration Directive.

- ix. There must be sound governance arrangements in place, with clearly defined, transparent and clearly identifiable reporting lines.

³⁵ A typo in the Annex of the CASPs Registration Directive, in relation to Class 1 has been corrected. The respective amount is €50.000.

What we expect:

Application Stage

At the application stage we expect applicants to provide an organogram, along with a visual representation of the reporting lines. We also expect a detailed elaboration to be included in the IOM in relation to the governance arrangements, the responsibilities of the Board, the responsibilities of the persons holding a management position, as also a detailed elaboration on the reporting lines at the level of the entity and at a level of each and every department. The persons responsible for each function of the CASP must be clearly identified and a detailed description of their duties and responsibilities should be included in the IOM. Applicants must provide an explanation as to how their governance arrangements and their reporting lines are in line with their obligations under the AML/CFT Law and the CASP Registration Directive, ensuring the sound operation of the CASP.

The policies and procedures documented by means of the IOM, must be also aligned with provisions of the AML/CFT Law and of the AML/CFT Directive (see section 2.2.2) and where certain arrangements are stemming from the latter shall be also documented in the AML/CFT Manual.

Ongoing Basis

On an ongoing basis we expect CASPs to ensure that the IOM and the AML/CFT Manual reflects the above at all times, that the governance arrangements ensure the sound operation of the CASP and their reporting lines meet their obligations pursuant to the AML/CFT Law, the CASP Registration Directive and the AML/CFT Directive.

- x. All reasonable steps must be taken to ensure the continuous and regular performance of its functions and an appropriate and up-to-date policy must be maintained to ensure its continued operation, as well as an appropriate and up-to-date data recovery policy and procedures for the timely resumption of activities, where despite the reasonable measures taken the activity of the CASP is interrupted.

What we expect:

Application stage

We expect applicants to include in their IOM a business continuity and recovery plan, elaborating on their policies and procedures, as well as on the practical implementation thereof, ensuring their compliance with the responsibilities mentioned above. The business continuity and recovery plan, must be underpinned by a comprehensive risk assessment undertaken to identify the potential risks, threads and

vulnerabilities of the applicant in question, along with a detailed explanation elaborating as to how each risk is mitigated by each policy and procedure included in the business continuity and recovery plan. The risk assessment must also address the case where despite the mitigation of all other risks the operations were to be disrupted and this risk must be addressed by formulating policies on business recovery. An explanation as to how the business recovery policies are adequate to ensure the timely resumption of activities must also be provided.

Ongoing Basis

On an ongoing basis we expect the risk assessment to be regularly revisited, ensuring that updated business continuity and recovery policies and procedures are in place, in line with their obligations pursuant to the AML/CFT Law and the CASP Registration Directive.

- xi. When outsourcing the performance of critical functions to third parties, reasonable steps must be taken to avoid any undue additional operational risk and in any case, it must be ensured that the quality of the internal controls or CySEC's ability to supervise, are not materially impaired.

What we expect:

Application Stage

We expect applicants to specify in their Business Plan whether they are going to rely on third parties for the performance of certain functions, operations or activities, specifying the respective parties and which operations will be outsourced per third party. The business plan must include details in relation to the remuneration per third party.

The decision to outsource must be underpinned by a comprehensive due diligence per third party in question and by a risk assessment undertaken to identify the potential risks, threads and vulnerabilities stemming from such outsourcing, including (but not limited to) the compliance risk, business continuity and recovery risks and risks stemming from the remuneration of such third parties. For the avoidance of doubt the principles on remuneration of point viii above, apply in the case of outsourcing as well, in the context of ensuring that there is no undue additional operational risk. The risk assessment must include the mitigation strategy per risks identified and the respective policies and procedures must be reflected in the IOM, including the policies and procedures in relation to the seamless termination of the outsourcing when necessary. Applicants must provide a detailed explanation elaborating as to how each risk is mitigated by each policy and procedure included in the business continuity and recovery plan.

We also expect the IOM to include a detailed description on how such functions will be monitored by the CASP in question, specifying the physical persons within the CASP who are responsible for the oversight of the functions to be outsourced. The IOM must also include a detailed description on the policies and procedures that ensure a seamless access to facilities and relevant data and records of such third party by the CASP and by CySEC where so requires.

Ongoing Basis

On an ongoing basis we expect the risk assessment to be regularly revisited and that updated policies and procedures are prescribed in the IOM and are implemented, in line with CASPs obligations pursuant to the AML/CFT Law and the CASP Registration Directive.

- xii. CASPs must have in place sound administrative and accounting procedures, internal control mechanisms, effective risk assessment procedures and effective control and safeguard arrangements for information processing systems.

What we expect:

Application Stage

At the application stage, we expect that such accounting and risk assessment procedures, internal control mechanisms and safeguarding arrangements are evidenced by means of elaborated description in the IOM.

The policies and procedures documented by means of the IOM, must be also aligned with provisions of the AML/CFT Directive (see section 2.2.2) and where certain arrangements are stemming from the latter shall be also documented in the AML/CFT Manual.

Ongoing Basis

On an ongoing basis we expect the said procedures and mechanisms to be regularly reassessed, ensuring that updated policies and procedures are prescribed in the IOM and in the AML/CFT Manual and are implemented, in line with CASPs obligations pursuant to the AML/CFT Law, the CASP Registration Directive and the AML/CFT Directive.

- xiii. Where the scope, nature, scale and complexity of its activity so require, the CASP must establish an internal control function that is independent of its other functions and activities, for the design and execution of its internal control mechanisms.

What we expect:

Application Stage

We expect that in the context of the risk assessment undertaken that the applicant also evaluates whether establishing an internal control function that is independent of its other functions and activities, for the design and execution of its internal control mechanisms, is proportionate, in line with the scope, nature, scale and complexity of the operations of the respective CASP.

Where the establishment of an independent internal control function, it is deemed as proportionate, the policies, the procedures, the reporting lines and the governance arrangements must be prescribed in the IOM.

Where the establishment of an independent internal control function, it is not deemed as proportionate, a detailed rationale must be provided.

The policies and procedures documented by means of the IOM, must be also aligned with provisions of the AML/CFT Directive (see section 2.2.2) and where certain arrangements are stemming from the latter shall be also documented in the AML/CFT Manual.

Ongoing Basis

The risk assessment must be regularly revisited in order to ensure that the policies, the procedures, the reporting lines and the governance arrangements remain updated and sound where a separate control function has been established or that an independent control function is established when deemed proportionate, where such independent function was not initially established.

- xiv. CASPs must have sound security mechanisms in place to guarantee the security and authentication of the means of transfer of information, minimise the risk of data corruption and unauthorised access and to prevent information leakage, in order to maintain the confidentiality of the data at all times.

What we expect:

Application Stage

The relevant procedures must be prescribed in detail in the IOM and must be underpinned by a relevant risk assessment aiming at identifying and at mitigating the relevant risks. A detailed explanation as to how the respective risks are sufficiently mitigated shall be also provided to CySEC.

Ongoing Basis

The risk assessment must be regularly revisited, the IOM must be updated and the CASP must have in place adequate relevant policies and procedures at all times.

- xv. CASPs must arrange for records to be kept of all of their activities, including the relevant correspondence, which shall be sufficient to enable CySEC to exercise its supervisory functions and to take steps to ensure the CASPs' compliance with their obligations.

What we expect:

Application Stage

We expect CASPs to have complete, clear and readily available records that provide a full and clearly identifiable track of their activities, their business relationships and their ongoing engagement with vendors or clients; and the content thereof, including any possible amendments from time to time.

The relevant procedure that would ensure such record keeping must be prescribed in detail in the IOM, including a mapping of the information to be kept and a relevant elaboration must be provided to CySEC as to the completeness of such records.

The policies and procedures documented by means of the IOM in relation to record keeping, must be also aligned with provisions of the AML/CFT Law and of the AML/CFT Directive (see section 2.2.2) and where certain arrangements are stemming from the latter shall be also documented in the AML/CFT Manual.

Ongoing Basis

CASPs shall comply with the above at all times. The adequacy of information kept must be evaluated on a regular basis and the IOM and the AML/CFT Manual must be kept updated.

- xvi. The persons employed by CASPs shall not perform multiple functions unless the exercise of multiple functions does not prevent or it is not likely to prevent such persons from carrying out any work or function with diligence, honesty and professionalism.

What we expect:

Application Stage

Such cases must be supported by a risk assessment and by a risk mitigation strategy. A relevant explanation as to why the relevant criteria are met, must be provided to CySEC.

Ongoing Basis

The risk assessment must be regularly revisited in order to ensure that the relevant criteria are still met or that such practice is timely ceased.

- xvii. It has appropriate policies and procedures in place to ensure that its clients' complaints are properly resolved.

Application Stage

The risk assessment must address the risks stemming from clients' complaints, including litigation and compliance risks and clear policies and procedures must be prescribed in the IOM, along with assigning to certain persons specific responsibilities for handling, escalating and deciding on clients' complaints.

Ongoing Basis

CASPs must comply with the above at all times and must regularly revisit their risk assessment, ensuring that appropriate policies and procedures are in place.

- xviii. The persons employed by the CASP must be honest and professionals and possess the appropriate knowledge for the tasks assigned to them

Application Stage

We expect that there is a bespoke section in the IOM in relation to the Recruitment Policy of the CASP, which shall reflect the requirements in relation to the honesty, professionalism and knowledge required per relevant task, elaborating further on the procedures followed and the evidence gathered for ensuring the compliance of the CASP with its obligations referred to in point xviii above.

Ongoing Basis

CASPs shall ensure that the policies and procedures they have in place, are adequate to ensure compliance with their aforesaid obligation at all times.

2.2.2. INTERPLAY BETWEEN THE PROVISIONS OF THE CASP REGISTRATION DIRECTIVE AND THE PROVISIONS OF THE AML/CFT DIRECTIVE AND BESPOKE AML/CFT EXPECTATIONS

2.2.2.1. The registration requirements of points: v, ix, xii, xiii, xv and xviii, overlap to a certain extent with the provisions of the AML/CFT Directive. The said points correspond to points (g), (k), (n), (o), (q) and (k) of Paragraph 6(1) of the CASP Registration Directive, respectively.

What we expect:

2.2.2.2. We expect applicants to fully comply with the Cumulative CASP Rules and this must be reflected in both the IOM and in the AML Manual. To this end, we expect the governance arrangements, the reporting lines, the record keeping, the risk assessment and the policies and procedures in general (including client's onboarding, KYC and due diligence and the transaction monitoring and reporting) to be formulated in such way that facilitate the CASPs compliance. In this context relevant CySEC, European Supervisory Authorities' ("**ESAs**") and FATF guidance must be also taken into consideration.

2.2.2.3. The risk assessment undertaken by the CASPs, we expect to cover all the risks that an obliged entity would have taken into consideration, but also specific risks stemming from crypto-assets *per se*. To this end we inter alia expect that client, country, delivery channels, product, services and transactions risks are addressed, including risks stemming from: 1) each crypto-asset, taking into account their specific characteristics, 2) the geographic location of the entities involved, 3) the type of the entities involved and their status (regulated or not), 4) the use of obscuring mechanisms and 5) the crypto-asset trail, will be taken into account, as also any relevant CySEC, ESAs and FATF material.

2.2.2.4. The IOM and the AML Manual must prescribe in detail the policies and procedures established to address the risks identified and must sufficiently mitigate such risks. We expect such policies, procedures, systems and controls to enable a risks specific monitoring. To this end we expect that appropriate tools are used, including tools for tracing the crypto-assets track on blockchain. Such tools must be also chosen in line with the relevant risk assessment and the choice of a specific tool must be supported by a comprehensive due diligence and a comparative analysis undertaken in relation to other similar tools reviewed. CASPs must be in position to provide a detailed explanation to CySEC as to their choices in line with their due diligence and risk assessment. In relation to crypto-asset tracking tools, we note that such tools support a number of common crypto-assets and compare transaction histories against a database of known addresses connected to criminal activities (such as addresses used in ransomware attacks, money laundering or dark web transactions), and flag identified transactions. In such cases, CASPs should refrain from engaging with persons involved in such transactions. When adopting these types of tracking tools, a platform operator should know that it has primary responsibility for discharging its AML/CFT obligations, and must be aware that the tools for back-tracing have limited reach and that their effectiveness can be compromised by

anonymity-enhancing technologies or mechanisms, including mixing services and anonymity enhanced tokens (privacy coins), specifically designed to obfuscate the transaction history.

2.2.2.5. Particularly in relation to Mixers, we note that in theory they might fall under the definition of CASPs. However we have not identified any legitimate purpose for such operations. To this end, it is unlikely that Mixing, would be considered a legitimate activity, for us to register such entities as CASPs. We would also consider any crypto-asset that was subject to mixing as extremely risky for AML/CFT purposes and such risk is further exacerbated where mixing took place in the recent past.

2.2.2.6. As regards to privacy coins (**hereinafter referred to as “Anonymity Enhanced Tokens” or “AETs”**), in view of the inherent anonymity entailed, we consider such tokens to exacerbate the ML/FT risks, sharing similar risks to cash and in view of the remote nature of crypto-assets’ transactions, creating possibly additional risks when compared with cash transactions.

2.2.2.7. Without prejudice to the KYC and other due diligence measures adopted in relation to the relevant clients, we expect CASPs to include in their monthly prevention statement submitted pursuant to the AML/CFT Directive a bespoke category of:

- i. *“crypto-assets subject to mixing”*, specifying the total value in Euros of services or activities undertaken in relation to crypto-assets that were subject to mixing at any time in the past (irrespective of how far in the past such mixing took place), where the CASP in question has decided based on their due diligence and risk assessment, to not refrain from providing the respective service or undertaking the respective activity.
- ii. *“Anonymity Enhanced Tokens” (“AET”)*, specifying the respective AETs in question, the amounts involved in Euros per AET in question and as a percentage of the total value of transactions in all crypto-assets, in relation to which the CASP engaged in any activity within a predefined period, including the deposits, withdrawals and holdings thereof, where the CASP in question has decided based on their due diligence and risk assessment, to not refrain from providing the respective service or undertaking the respective activity.

CySEC will be monitoring the situation and depending on the risks identified, further measures may be adopted.

2.2.2.8. In relation to our expectation that the policies and procedures include any guidance stemming from FATF material, we would like to note that in this context we expect CASPs to fully comply with the so called *“travel rule”*, according to which, certain information must be collected and submitted, immediately and by secure means, along with transfers of crypto-assets.

2.2.3. THE TRAVEL RULE

2.2.3.1. The travel rule is in our view already covered in principle by the AML/CFT Law and the AML/CFT Directive, which in view of the bearer nature of crypto-assets, such procedure is rendered as necessary under the requirement of applying a risk based approach. However CySEC intends to further elaborate the travel rule by means of AML/CFT Directive, for the purposes of consistency and clarity. In the meantime we provide the following guidance.

What we expect:

2.2.3.2. In our view any transaction with a value equal to or in excess of one thousand Euros, must be deemed as material for the purposes of the travel rule.

2.2.3.3. To this end we provide the following additional definitions for the purposes of this section:

- i. “material transaction” means a transaction with a value equal to or in excess of one thousand euros;
- ii. “payee” means the intended recipient of a crypto-asset in a material crypto asset transfer;
- iii. “payer” means a person who holds a crypto-asset account and allows a crypto-asset transfer from that account or, where there is no crypto-asset account, who provides instructions to a CASP to carry out a material crypto-asset transfer;
- iv. “unique transaction identifier” means a combination of letters, numbers or symbols, which is unique to the material crypto-asset transfer;
- v. “crypto-asset account” means an account held in the name of one or more clients which is or may be used for storing, sending or receiving crypto-assets;
- vi. “material crypto-asset transfer” means any material transaction, on behalf of a payer, with a view to making a crypto-asset available to a payee, irrespective of whether the payer and the payee are the same person.

Originators Obligations:

2.2.3.4. Where an obliged entity sends a material crypto-asset transfer to a CASP, the relevant obliged entity must immediately and by secure means obtain the following information and submit it to the CASP:

- i. the payee's name and surname;
- ii. the payee's crypto-asset account number;
- iii. the payer's name and surname;
- iv. the payer's crypto-asset account number;
- v. where the payee or the payer does not have a crypto-asset account number, a unique transaction identifier; and
- vi. one of the following:
 - a) the payer's physical address;
 - b) the payer's national identity number;
 - c) the payer's customer identification number; or
 - d) the payer's date and place of birth.

2.2.3.5. An obliged entity must follow the above irrespective of whether the obliged entity in question and the payer are the same person.

Beneficiary obligations:

2.2.3.6. Where an obliged entity receives a crypto-asset transfer from a CASP, the obliged entity must ensure that:

- i. it has received the information specified in paragraph 2.2.3.4; and
- ii. the information is consistent with its own records in respect of the payee's name and, where applicable, the payee's account number.

2.2.3.7. Where an obliged entity receives a crypto-asset transfer from a person other than a CASP, the obliged entity must ensure that it obtains, from the payee:

- i. the information specified in point iii of paragraph 2.2.3.4 and
- ii. the information specified in point vi of paragraph 2.2.3.4.

2.2.3.8. Before an obliged entity executes a material crypto-asset transfer received from any person, it must ensure that it has effective risk-based policies and procedures in place for the purposes of:

- i. determining whether any of the information referred to in paragraphs 2.2.3.6 or 2.2.3.7 as the case may be, is missing, is incomplete or, where applicable, is inconsistent with the obliged entity's own records; and
- ii. where a default is identified pursuant to point (i) directly above:
 - a) determining whether to execute, reject or suspend the material crypto-asset transfer; and
 - b) determining the appropriate follow-up action.

2.2.3.9. Paragraphs 2.2.3.6 and 2.2.3.7 shall apply to an obliged entity irrespective of whether the said obliged entity and the payee are the same person.

Customer Due Diligence and Record-Keeping.

2.2.3.10. The information obtained by obliged entities as per this section shall be deemed as part of their customer due diligence process and relevant records must be kept in accordance with the AML/CFT Law and the AML/CFT Directive.

2.2.4. ONGOING RESPONSIBILITIES

2.2.4.1 CASPs must comply with all of their responsibilities stemming from the Cumulative CASP Rules at all times.

What we expect:

2.2.4.2 We expect full compliance with the Cumulative CASP Rules, including with all our expectations and elaboration under section 2.2.3 of this Policy Statement.

2.2.4.3 CASPs must ensure that all information, including marketing communications, addressed to clients or potential clients, are accurate, clear and not misleading and that marketing communications are clearly identified as such and that they provide clients or potential clients with appropriate information on the CASP, its services and the costs and associated charges, in a timely manner.

What we expect:

2.2.4.4 We expect CASPs to act honestly, with professionalism having in mind the best interest of their clients.

2.2.4.5 CASPs must maintain at all times own funds in accordance with the CASP Registration Directive.

What we expect:

2.2.4.6 We expect CASPs to abide to the capital requirements of the CASP Registration Directive and to periodically submit relevant information by means of forms published by CySEC.

2.2.4.7 CASPs must maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps designed to prevent conflicts of interest from adversely affecting the interests of their clients. They must take all appropriate steps to identify and to prevent or manage conflicts of interest between itself, including its managers, employees and any person directly or indirectly linked to it by control, and their clients or between one client and another and to timely and clearly disclose to the client the general nature or/and sources of conflicts of interest and the steps taken to mitigate those risks, before undertaking business on their behalf.

What we expect:

2.2.4.8 We expect CASPs to act honestly, with professionalism having in mind the best interest of their clients and to abide to the above.

2.3. NEXT STEPS

2.3.1 CySEC will publish relevant forms and documents in a bespoke section on its website [here](#) for the commencement of the registration process for CASPs operating in or from Cyprus.

2.3.2 As to the a limited number of investment firms that were permitted to provide crypto-assets' activities on a limited scale, as a non-regulated activity, CySEC believes that the extraordinary circumstances under which such operations were permitted under section 5(5)(b) of the Investment Services Law, is highly unlikely to still be relevant. In addition to this and in view of an anticipated more widespread adoption of crypto-assets we believe that it is prudent to ring-fence the investment services from crypto-assets activities, at least until a certain level of maturity is reached, in order to avoid spill-over risks. To this end, these firms shall formulate and submit to CySEC by the end of 2021 an action plan for phasing out their crypto-assets' activities, up until the end of 2022; and if the respective group wishes so, to establish a different entity in order to seek registration as a CASP. In the meantime they shall submit an application to be registered as CASPs. In view of their already CySEC regulated status and of the temporary nature of their continued operations, our evaluation will be streamlined in such cases by excluding the (re)evaluation of the CASP Beneficiaries and of the persons holding a management position, where such persons have already been evaluated and have been approved by CySEC. Without prejudice to our view on ring-fencing, we will review any applications by Investment Firms to engage in crypto-assets' activities on their own merit, taking into account the specificities entailed (e.g. engaging in crypto-activities might be necessary in the context of dealing in

physically settled OTC derivatives on crypto-assets etc.). For the avoidance of doubt crypto-assets' activities undertaken by Investment Firms, will be subject to the prudential requirements of the IFD/IFR, which are more stringent than the capital requirements provided for in the CASP Registration Directive.

2.3.3 The AML/CFT Law does not provide for the grandfathering of existing crypto-assets' businesses. We recognize that this might disrupt the existing operations and we therefore will not prioritize against existing crypto-assets' businesses who will submit a duly completed application to CySEC by the end of October 2021 the latest; and who will be in a position to demonstrate that they had a material crypto-assets' business prior the entry into force of the AML/CFT Law, provided that they will fully abide to the AML/CFT obligations. For the avoidance of doubt this does not include existing businesses with no proven material crypto-assets' activities.

APPENDIX 1 – CASP REGISTRATION DIRECTIVE

UNOFFICIAL TRANSLATION AND CONSOLIDATION

DIRECTIVE FOR THE PREVENTION AND SUPPRESSION OF MONEY LAUNDERING AND TERRORIST FINANCING (REGISTER OF CRYPTO ASSETS SERVICES PROVIDERS)

ORDER OF PARAGRAPHS

PART I INTRODUCTORY PROVISIONS

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Paragraph 2	Definitions
Paragraph 3	Scope
Paragraph 3A	Persons that are not subject to registration in the CASP Register

PART II REGISTER OF CRYPTO ASSET SERVICES PROVIDERS

Paragraph 4	Register of CASPs
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PART III PROCEDURE FOR REGISTRATION AND DEREGISTRATION OF CASPs

Paragraph 5	Submission of an application for registration in the Register of CASPs
Paragraph 6	Conditions for the registration of CASPs
Paragraph 7	Conditions for the deregistration of CASPs
Paragraph 8	Submission of a request for deregistration of CASPs
Paragraph 9	Suspension of registration of CASPs for the purposes of correction of information
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PART IV CHANGES

Paragraph 11	Change in the information of the Register of CASPs
Paragraph 11A	Change in relation to the information submitted with the application
Paragraph 12	Notification of material changes

PART V ORGANIZATIONAL AND OPERATIONAL REQUIREMENTS

Paragraph 13	Provision of information to clients or potential clients
Paragraph 14	Capital adequacy
Paragraph 15	Conflict of interests

PART VI CHARGES AND FEES

Paragraph 16	Charges and fees
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PART VII FINAL PROVISIONS

Paragraph 17	Transitional provisions
Paragraph 18	Entry into force

The Cyprus Securities and Exchange Commission, exercising the powers vested in it under paragraph (4) of Section 59 and subparagraph (c) of paragraph (1), subparagraphs (a), (b) and (c) of paragraph (5), subparagraph (b) of paragraph (6), subparagraph (b) of paragraph (7), subparagraph (b) of paragraph (8), subparagraphs (a), (b), (c) of paragraph (9), subparagraphs (a), (b), (c) of paragraph (10), subparagraph (a) of paragraph (11) of Section 61E of the Law on the Prevention and Suppression of Money Laundering Activities, for the purposes of harmonizing Article 1, paragraph (29) of the European Union Act titled:

Official Journal of the EU: L 156, 19.6.2018, p.43. "Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU"

issues the following Directive:

PART I
INTRODUCTORY PROVISIONS

Short title. 1. This Directive will be referred to as the Directive for the register of crypto asset services providers

Definitions. 2. (1) In this Directive, unless the context shall prescribe otherwise:

"Independent Member" means the member of the Board of Directors of the CASP who has no relationship or links in the present or recent past with the CASP or with the other members of the Board of the CASP, which could affect the member's objective and balanced judgment and reduce the member's ability to make decisions independently;

"Initial capital" means the amount of the initial capital of the Annex, which is comprised of the elements and capital instruments of subparagraph (2) of paragraph 14;

"Applicant" means the Crypto Asset Services Provider;

"Crypto-assets' addresses" means all public addresses of crypto-assets and/or of public keys/digital wallets controlled by the CASP that are used or can be used in the operation of the CASP in relation to each crypto-asset;

"Qualifying holding" has the meaning ascribed to it in paragraph (1) of the section 2 of the Law;

"Auditor" has the meaning ascribed to the term "statutory auditor" in paragraph (1) of Section 2 of the Auditors' Law;

53(l) of 2017
171(l) of 2017
7(l) of 2018
69(l) of 2019
12(l) of 2020.

Official EU Journal: L 176, 27.06.2013, p. 1; L 314, 05.12.2019, p. 1.

"Regulation (EU) No 575/2013" means the act of the European Union titled Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as has been corrected and amended by Regulation (EU) 2019/2033 of European Parliament and of the Council of 27 November 2019;

"Register" or "CASP Register" means the Register of Crypto Asset Services Providers created and maintained by the Cyprus Securities and Exchange Commission, pursuant to paragraph (1), of section 61E of the Law;

188(l) of 2007
58(l) of 2010
80(l) of 2012
192(l) of 2012
101(l) of 2013

"Law" means the Prevention and Suppression of Money Laundering Activities Law;

184(l) of 2014
18(l) of 2016
CORR. E.U. Par.
l(l), No. 4564
13(l) of 2018
158(l) of 2018
81(l) of 2019
13(l) of 2021

Official Journal
of the EU: L 182,
29.6.2013,
p. 19.

"Directive 2013/34/EU" means the act of the European Union titled "Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC", as last amended by Directive 2014/102/EU of the Council of 7 November 2014;

"durable medium" means any instrument which:

(a) enables a client to store information addressed personally to that client in a way accessible for future reference and for a period of time adequate for the purposes of the information; and

(b) allows the unchanged reproduction of the information stored;

"close links" means a situation in which two or more natural or legal persons are linked by:

(a) participation which means the ownership, direct or by way of control, of at least 20% of the voting rights or capital of an undertaking;

(b) control which means the relationship between a parent undertaking and a subsidiary, in all the cases referred to in Article 22, paragraph 1 and 2, of Directive 2013/34/EU, or a similar relationship between any natural or legal person and an undertaking, any subsidiary of a subsidiary undertaking also being considered a subsidiary of the parent undertaking which is at the head of those undertakings;

(c) a permanent link of both or all of them to the same person by a control relationship;

"Relevant offense" means -

(a) any offense under the law governing banking, financial activities, as well as securities and insurance activities, or in relation to securities markets or means of payment;

(b) any offense involving fraudulent conduct, fraud or financial crime, including money laundering and terrorist financing, market manipulation, insider trading, usury and corruption;

(c) any tax offense;

(d) any other offense under corporate, bankruptcy, insolvency or consumer protection law;

"Third country" means a country which is not a member of the European Union or a Contracting Party to the Agreement on the European Economic Area, signed in Porto on 2 May 1992 and adapted by the Protocol, signed in Brussels on 17 May 1993, as this Agreement is further amended from time to time.

(2) Terms used in this Directive and not interpreted otherwise have the meaning ascribed to them by the Law.

Scope.

3. This Directive applies with respect to Crypto Asset Services Providers in the context of the application of paragraph (2) of section 61E of the Law.

Persons that are not
subject to
registration in the
CASP Register

3A A person that is not subject to registration in the CASPs' Register, pursuant to the exemption of subparagraph (b) of paragraph (2) of section 61E of the Law, must submit a notification to the Cyprus Securities and Exchange Commission, providing evidence in relation to the validity of its registration with a national competent authority

of another Member State, for the services or the activities that provides or exercises, in order to fulfil the requirement of paragraph (4) of section 61E of the Law. Where a person is registered in more than one registers of other Member States, that person must provide evidence in relation to each and every registration. A person that provides or exercises crypto-assets' services or activities in the Republic, must inform the Cyprus Securities and Exchange Commission in case of deregistration from the register of a Member State or in case of amendment of registration in a register of a Member State.

PART II REGISTER OF CRYPTO ASSET SERVICES PROVIDERS

- Register of CASPs.
4. The Cyprus Securities and Exchange Commission publishes the CASP Register on its website, which is accessible to the public, providing the following information regarding the CASPs that are registered:
- (a) The name, trade name, legal form and legal entity identifier of the CASP;
 - (b) the physical address of the CASP;
 - (c) the services provided and/or the activities that the CASP may carry out as defined in subparagraphs (a) to (e), in the definition of "Crypto Asset Services Provider" in paragraph (1) of section 2 of the Law;
 - (d) the website of the CASP.
- Submission of an application for registration in the Register of CASP.
5. (1) Subject to the provisions of paragraphs (2) and (3) of section 61E of the Law, for the registration of CASPs in the CASP Register, the applicant shall submit the Application for Registration issued by the Cyprus Securities and Exchange Commission and which is available on its website, duly completed and shall be accompanied by all documents and information specified in it, including:
- (a) the information referred to in paragraph 4;
 - (b) the crypto-assets' addresses of the CASP;
 - (c) the crypto-assets in relation to which the CASP provides services or exercises activities;
 - (d) the types of clients the CASP services;
 - (e) information as to whether the CASP offers payment services in crypto-assets;
 - (f) information as to whether the CASP operates crypto-assets ATMs, the number and the exact location thereof;
 - (g) the geographic jurisdictions in which the CASP operates;
 - (h) information as to whether the CASP is registered or supervised in any other jurisdiction;
- (2) The documents and data are submitted in the official language of the Republic or in English and are originals or, where this is not possible, they are true copies of the originals. In case that the documents and data are produced in a language other than the official language of the Republic or in English, their true translation is also submitted.
- (3) From the date of submission of the application for registration in the CASP Register until the notification of the decision of the Cyprus Securities and Exchange Commission for the approval or rejection of the registration application, the applicant must notify the Cyprus Securities and Exchange Commission of any change in the information submitted with the application of subparagraph (1).
- (4) In the context of reviewing or examining the data and documents of the application for registration, the Cyprus Securities and Exchange Commission may request clarifications and/or additional data, documents or information, which in its view are necessary for the completion of the review of the application.

(5) The applicant may authorize a person to represent them before the Cyprus Securities and Exchange Commission for any required action arising from the registration process and which is related to the responsibilities of the Cyprus Securities and Exchange Commission, including for the submission of the application for registration.

(6) The Cyprus Securities and Exchange Commission shall inform the applicant and/or where applicable the person authorized pursuant to subparagraph (5), within six (6) months from the submission of a fully completed application, in relation to the registration or not in the CASP Register.

Conditions for the registration in the CASP Register.

6. (1) The Cyprus Securities and Exchange Commission approves an application for registration in the CASP Register, provided that the applicant meets all of the following conditions:

(a) Has submitted to the Cyprus Securities and Exchange Commission all the information, documents and data required by the Application for Registration of subparagraph (1) of paragraph 5 and which may have been requested by the Cyprus Securities and Exchange Commission pursuant to subparagraph (4) of paragraph 5 and, in particular, has submitted the information referred to in paragraph 4 as well as the crypto-assets' addresses;

(b) Ensures that the persons holding a management position in the applicant are honest and competent, which is fulfilled if the persons have a good reputation, knowledge, skills and experience and devote sufficient time to the performance of their duties to the applicant.

For the purposes of this point:

i. "Good reputation" is considered the integrity and morality of the person and is documented if there is no reliable evidence to suggest otherwise so that the Cyprus Securities and Exchange Commission has good reasons to doubt it.

Factors that call into question the "integrity" of the person include a conviction for a relevant offense against the said person or their associates, prosecution for a relevant offense against the said person or against their associates, imposition of administrative sanctions on the said person due to non-compliance with laws and/or regulations governing the financial sector and the inclusion of the person in a sanctions list.

Factors that call into question a person's "morality" take into account their behavior in previous business and supervisory relations, and in particular

- Any indication that it has not been transparent, open and cooperative in its engagement with supervisory or regulatory authorities;
- Any rejection of any application for registration, approval, participation or licensing for the pursuit of a commercial, business or professional activity, any revocation, withdrawal or termination of such registration, approval, participation or licensing and any deregistration from a professional body or association;
- The reasons for any dismissal from a position of employment or from any position of trust, fiduciary relationship or other similar case, as well as any official calls for resignation from such a position;
- Any termination, by the competent authority, of a person who directs the business activities.

ii. "Knowledge" is substantiated by the existence of academic or professional degrees or any of the above in conjunction with continuing training, which on a cumulative basis may satisfy the Cyprus Securities and Exchange Commission that appropriate knowledge exists.

iii. "Skills and experience" means the person's abilities in the field of administration ("administrative competence") and in the field of activities carried out by the CASP or in a related field ("technical competence"). Administrative competence is demonstrated by the person's previous experience in relevant management positions as a

person running the business in other financial institutions. Technical competence is demonstrated by a person's previous experience in matters relating to the operation and management of financial institutions or the provision of investment or other related services with due skill, care, diligence and compliance with relevant standards.

(c) In the case of the Board of Directors, the Board of Directors of the applicant is comprised of at least four (4) persons who meet the requirements of point (b), two (2) of which must direct the business activities of the CASP and two (2) must be independent members.

(d) Ensures that the beneficiaries of CASP are honest and competent, which is fulfilled if they have a good reputation and the ability to maintain the strong financial position of CASP.

For the purposes of this point:

- i. The provisions of point (b)(i) shall apply for the documentation of "good reputation";
- ii. In order to document the "ability to maintain the sound financial position of the CASP", the beneficiaries of CASP should have sufficient financial soundness to ensure the sound and prudent management of the CASP in the foreseeable future (usually three years), for which they should satisfy the Cyprus Securities and Exchange Commission

(e) The close links between the applicant and other natural or legal persons do not preclude the effective monitoring, evaluation and supervision by the Cyprus Securities and Exchange Commission.

Where the natural or legal person with whom the applicant has a close connection is in a Third Country, the laws, regulations or administrative provisions of the Third Country shall not impede the effective performance of the supervisory functions of Cyprus Securities and Exchange Commission;

(f) When operating online, maintains a website fully owned and exclusively used by the CASP, through which it will operate, without any other person being able to operate through it, except for cases where all of the following conditions are met:

- i. The applicant has undertaken a risk assessment in relation to the risks stemming from not maintaining a website fully owned and exclusively used by the CASP, including in relation to the risks arising for the public, according to which it was deemed that the risks involved are manageable;
- ii. the applicant has in place policies and procedures that can mitigate the risks identified; and
- iii. The Cyprus Securities and Exchange Commission is satisfied as to the criteria of subpoints i and ii and does not object in relation to not maintaining a website fully owned and exclusively used by the CASP.

(g) It has established appropriate policies and procedures to ensure its compliance, including the compliance of its executives, employees and persons to whom functions are assigned to, in accordance with the Law and the Directive of the Cyprus Securities and Exchange Commission on the Prevention and Suppression of Money Laundering and Terrorist Financing.

(h) It has established appropriate policies and procedures and has appropriate systems and controls in place to ensure the prudent operation of the CASP, including minimizing the risk of theft or loss of its clients' crypto-assets;

(i) Has own funds in accordance with paragraph 14;

(j) Ensure that the performance of its staff is not remunerated or evaluated in a way that conflicts with its duty to act in the best interest of its clients and in particular does not proceed with any arrangements in the form of remuneration, sales targets or otherwise, which could motivate its staff to implement aggressive promotion practices of products or services;

(k) It has sound governance arrangements, with clearly defined, transparent and clearly identifiable reporting lines;

(l) Takes all reasonable steps to ensure the continuous and regular performance of its functions and maintains an appropriate and up-to-date policy to ensure its continued operation and an appropriate and up-to-date data recovery policy and procedures for the timely resumption of its activities, where despite the reasonable measures taken the activity of the CASP is interrupted;

(m) When outsourcing the performance of critical functions to third parties, ensures that reasonable steps are taken to avoid any undue additional operational risk and in any case that the quality of the internal controls of the CASP or the Commission's ability to monitor compliance of the CASP with all of its obligations, are not materially impaired;

(n) Has sound administrative and accounting procedures, internal control mechanisms, effective risk assessment procedures and effective control and safeguard arrangements for information processing systems;

(o) Where the scope, nature, scale and complexity of its activity so require, the CASP has established an internal control function that is independent of its other functions and activities, for the design and execution of its internal control mechanisms of point (n);

(p) It has sound security mechanisms in place to guarantee the security and authentication of the means of transfer of information, minimise the risk of data corruption and unauthorised access and to prevent information leakage, in order to maintain the confidentiality of the data at all times;

(q) Must arrange for records to be kept of all of its activities, including the relevant correspondence, which shall be sufficient to enable the Cyprus Securities and Exchange Commission to exercise its supervisory functions and to take steps to ensure the CASP's compliance with its obligations;

(r) Ensures that the persons employed by it do not perform multiple functions unless the exercise of multiple functions does not prevent or it is not likely to prevent such persons from carrying out any work or function with diligence, honesty and professionalism;

(s) It has appropriate policies and procedures in place to ensure that its clients' complaints are properly resolved;

(t) Ensures that the persons employed by the CASP are honest and professionals and possess the appropriate knowledge for the tasks assigned to them;

(2) Once the application for registration is approved, the Cyprus Securities and Exchange Commission shall immediately register the applicant in the CASP Register.

(3) The conditions for registration in the CASP Register are fulfilled in relation to:

(a) points (b), (c), (d) and (e) of subparagraph (1), where the applicant is an entity that operates pursuant to legislation in relation to which the competent authority is the Cyprus Securities and Exchange Commission, who has already evaluated these points and was satisfied for their adequacy, for the purposes of that entity's compliance with the legislation governing its operations;

(b) point (i) of subparagraph (1), where the applicant has a licence to operate by the Cyprus Securities and Exchange Commission, pursuant to the Investment Services and Activities and Regulated Markets Law.

Conditions for deregistration of CASPs.

7. (1) The Cyprus Securities and Exchange Commission may remove a CASP from the CASP Register based on subparagraph (b), paragraph (5) of section 61E of the Law, if one or more of the following conditions are met:

(a) does not provide services in relation to crypto-assets for a continuous period of six (6) months

(b) has been registered in the CASP Register on the basis of false statements or in any other irregular manner;

(c) has terminated all its services and activities as defined in subparagraphs (a) to (e), in the definition of "Crypto Asset Services Provider" in paragraph (1), of section 2 of the Law, subject to the provisions of paragraph 8;

(d) no longer falls under the provisions of paragraph (2) of section 61E of the Law.

(2) Where the Cyprus Securities and Exchange Commission decides to remove a CASP from the CASP Register on the basis of points (a) to (d) of subparagraph (1) or on the basis of point (iii), subparagraph (a), paragraph (6) of section 59 of the Law, the CASP must proceed to the actions of subparagraph (1) of paragraph 8 and to any other actions may be required by the Cyprus Securities and Exchange Commission, at its sole discretion.

Submission of a request for deregistration of CASPs.

8. (1) A CASP that decides to be removed from the CASP Register as a consequence of termination of all its services and activities as defined in subparagraphs (a) to (e), in the definition of "Crypto Asset Services Provider" in paragraph (1), of section 2 of the Law, shall notify its intention to the Cyprus Securities and Exchange Commission in writing, along with a proposed six (6) months action plan for the implementation of the following actions:

(a) To inform each client individually about the procedure to be followed within the deadline set by the CASP, for the completion of the transactions, the return of funds and crypto assets, as well as for the submission of any complaints,

(b) repay the funds and return the crypto-assets belonging/corresponding to its clients, including any profits;

(c) review and resolve all client complaints submitted to it;

(d) to settle all its liabilities including any debts to the Cyprus Securities and Exchange Commission.

(2) The Cyprus Securities and Exchange Commission may request clarifications on the proposed timeline per the action plan, as well as request additional actions to be taken by the CASP, at a specified time, to safeguard the interests of its clients.

(3) Immediately after the written notification of the Cyprus Securities and Exchange Commission as defined in subparagraph (1), the CASP must:

(a) Post on all its websites an announcement informing the public about its intention to be deleted from the CASP Register as a consequence of the termination of all its services and activities as well as about the procedure that its clients must follow, within the deadline set by the CASP for the completion of their transactions, the repayment of the funds and the return of crypto-assets, as well as for the submission of any complaints;

(b) ensure that it does not provide or carry out services or activities other than those necessary for the completion of the outstanding transactions of itself and its clients, as per their instructions;

(c) take steps to ensure that, until it is removed from the CASP Register, it has at least one board member and/or a senior manager to carry out the actions required until the deregistration process is completed.

(4) Upon submission of a written request of the CASP, the Cyprus Securities and Exchange Commission may approve an extension as to the implementation of the actions of subparagraph (1) for a period of up to six (6) additional months, if this is deemed justified.

(5) Where it is not possible to repay all funds and/or the return of all crypto-assets to clients within the timeline set by the CASP as per the action plan for the implementation of actions or within the approved extension, the CASP should inform the Cyprus Securities and Exchange Commission for the additional actions it intends to take to settle the outstanding issue.

The Cyprus Securities and Exchange Commission may remove a CASP from the CASP Register based on subparagraph (b), paragraph (5) of section 61E of the Law, regardless of its inability to return all funds and/or return the crypto-assets to clients at the specified time, provided that the CASP has made arrangements in such that allow for the subsequent fulfilment of its obligations.

(6) If the actions of subparagraph (1) and subparagraph (5), where applicable, are implemented, the CASP informs the Cyprus Securities and Exchange Commission and presents a relevant auditor's certificate.

(7) Where the Cyprus Securities and Exchange Commission decides to remove a CASP from the CASP Register as a result of the application of subparagraph (c) of paragraph 7, the CASP shall immediately, and without any delay, ensure that all references to its websites and elsewhere in relation to its registration in the CASP Register, have been deleted.

(8) The submission of a notification in accordance with subparagraph (1), does not affect the authority of the Cyprus Securities and Exchange Commission to decide on the removal of a CASP from the CASP Register based on:

(a) point (iii), subparagraph (a), paragraph (6) of section 59 of the Law or

(b) of subparagraph (b), paragraph (5), of section 61E of the Law as a consequence of the application of paragraph 7, and in particular in the event that the CASP did not complete the actions of subparagraph (1) within the timelines.

Suspension of registration of CASPs for the purposes of correction of information.

9. (1) The Cyprus Securities and Exchange Commission may suspend the registration of CASP in the CASP Register for a reasonable period of time in cases where for any reason it considers that the information in the CASP Register that is accessible to the public under paragraph 4 is inaccurate and/or incomplete.

(2) Any decision to suspend the registration of CASP in the CASP Register based on subparagraph (1), is taken by the Chairman and/or the Vice-Chairman of the Cyprus Securities and Exchange Commission, who inform the Board of the Cyprus Securities and Exchange Commission at its next meeting.

(3) Where the Chairman and/or the Vice-Chairman of the Cyprus Securities and Exchange Commission suspend the registration of CASP in the CASP Register under subparagraph (1), provide the CASP with a maximum period of seven (7) days to rectify the relevant information and/or to provide explanations to the Cyprus Securities and Exchange Commission.

(4) The CASP must provide correct information and/or explanations to the Cyprus Securities and Exchange Commission within the set deadline.

(5) The Cyprus Securities and Exchange Commission decides then on the continuation or not of the suspension of the registration of the CASP in the CASP Register and, if necessary, corrects the information referred to in paragraph 4.

Suspension of registration of CASPs for suspected non-compliance with the registration requirements.

10. (1) The Cyprus Securities and Exchange Commission may immediately and without any other notice or procedure suspend the registration of a CASP from the CASP Register where there are suspicions of possible non-compliance with any of the registration conditions of subparagraph (1) of paragraph 6.

(2) Any decision to suspend the registration of CASP in the CASP Register based on subparagraph (1) shall be taken by the Chairman and/or Vice-Chairman of the Cyprus Securities and Exchange Commission, who shall inform the Board of the Cyprus Securities and Exchange Commission at its next meeting.

(3) Where the Chairman and/or the Vice-Chairman of the Cyprus Securities and Exchange Commission suspend the registration of CASP in the CASP Register under subparagraph (1), provide the CASP with a maximum period of fifteen (15) days to comply with the registration conditions of subparagraph (1) of paragraph 6

with which it is suspected that it does not comply and to inform the Cyprus Securities and Exchange Commission of its actions.

It is provided that where the CASP does not respond within the set deadline, the Cyprus Securities and Exchange Commission may proceed as provided in subparagraph (4) without any further notice.

(4) In case that the Cyprus Securities and Exchange Commission:

(a) Is satisfied that the CASP complies with its registration requirements, terminates the suspension of the registration and informs the CASP that it may continue to provide or carry out services or activities on a professional basis in or from the Republic;

(b) Is not satisfied that the CASP complies with the conditions of its registration, calls the CASP to representations under section 38 of the Cyprus Securities and Exchange Commission Law on the possibility of imposing sanctions and measures as defined in paragraph (6) of section 59 of the Law and decides on the continuation or not of the suspension of the registration of the CASP in the CASP Register until the date of a decision.

73(I) of 2009
5(I) of 2012
65(I) of 2014
135(I) of 2015
109(I) of 2016
137(I) of 2018
56(I) of 2019
152(I) of 2020.

(5) For as long as the suspension of the registration from the CASP Register lasts, the CASP must post on all its websites a relevant announcement regarding the suspension of its registration and its inability to provide services and activities, whilst the Cyprus Securities and Exchange Commission includes relevant marking in the Register of CASP.

(6) For as long as the suspension of its registration in the CASP Register lasts, the CASP is not allowed:

(a) To provide or carry out services or activities in connection with crypto-assets;

(b) enter into a business relationship with any person and accept any new client;

(c) be advertised as a CASP, registered in the CASP Register maintained by the Cyprus Securities and Exchange Commission

(7) During the period of suspension of registration, the CASP, may take the following actions without being considered to be in breach of the provisions of point (a) of subparagraph (6), if its existing clients so wish:

(a) To conclude all of its own outstanding transactions and of its clients, as per the clients' instructions;

(b) to repay all funds and return all crypto-assets to its clients;

(c) to transfer existing contracts to another CASP following instructions from its clients, unless it has received other instructions from the Cyprus Securities and Exchange Commission.

PART IV CHANGES

Change in the information of the CASP Register.

11. In case of changes in the information of paragraph 4 in the Register of CASP, the following shall apply:

(a) in the event of a change in the information referred to in points (a) and (b) of paragraph 4, the CASP shall submit to the Cyprus Securities and Exchange Commission a request to amend its registration in the CASP Register within one month from the date of the change and the Cyprus Securities and Exchange Commission shall update the information within three (3) days from the receipt of the request.

(b) in the event of a change in the information referred to in points (c) and (d) of paragraph 4, the provisions of paragraph 12 shall apply.

Change in relation to the information submitted with the application.

11A The CASP must notify to the Cyprus Securities and exchange Commission any change in relation to the information of points (c), (d), (e), (f), (g) and (h) of subparagraph (1) of paragraph 5, within fifteen (15) days from the date where the change occurred, the latest.

Notification of material changes.

12. (1) A change in the following that were a condition for registration in the CASP Register according to paragraph 6, constitutes a material change and a prior notification of the Cyprus Securities and Exchange Commission for obtaining approval is required:

(a) any change in the services or activities provided or exercised by the CASP as defined in subparagraphs (a) to (e), in the definition of "Crypto Asset Services Provider" in paragraph (1) of Section 2 of Law;

(b) any change in relation to the crypto-assets' addresses;

(c) any change to the persons participating in the Board of Directors of the CASP and/or to the persons holding a senior management position in the CASP;

(d) any change in relation to the beneficiaries of the CASP;

(e) any change in relation to the website of the CASP.

(1a) Irrespective of the provisions of subparagraph (1), where a CASP is authorised by the Cyprus Securities and Exchange Commission to operate, pursuant to the Investment Services and Activities and Regulated Markets Law, it is not required to submit a notification for granting an approval:

(a) for a change as per point (c) of subparagraph (1), provided that the requirements of sections 9 and 10 of the Investment Services and Activities and Regulated Markets Law are met;

(b) for a change as per point (d) of subparagraph (1), provided that the criteria of section 14 of the Investment Services and Activities and Regulated Markets Law are met.

(2) The Cyprus Securities and Exchange Commission approves a material change where the CASP will continue to comply with section 61E of the Law and the directives issued pursuant thereof.

(3) The notification of material change is accompanied by all the information and documents that are specified in the forms for notification of changes issued by the Cyprus Securities and Exchange Commission, as the case may be.

(4) In case of approval of a change concerning the services or activities provided or exercised by the CASP according to the provisions of subparagraphs (a) to (e), in the definition of "Crypto Asset Services Provider" in paragraph (1), of section 2 of the Law, the Cyprus Securities and Exchange Commission amends the relevant entry in the CASP Register.

PART V ORGANIZATIONAL AND OPERATING REQUIREMENTS

Provision of information to clients or potential clients.

13. The CASP shall ensure that:

(a) all information, including marketing communications, addressed to clients or potential clients, are accurate, clear and not misleading and that marketing communications are clearly identified as such;

(b) provide clients or potential clients with appropriate information on the CASP, its services and the costs and associated charges, in a timely manner;

(c) the information referred to in points (a) and (b) is provided in a comprehensible form so that clients or potential clients are reasonably able to understand the nature and risks of the service and of the specific type of crypto-assets offered,

allowing thus for decision making on an informed basis. This information may be provided in a standardised format.

- Capital adequacy. 14. (1) The CASP must maintain at all times own funds equal to the greater of the following:
- (a) the amount of the initial capital of the Annex, depending on the nature of its functions and activities;
 - (b) one quarter (1/4) of the fixed overheads of the CASP during the previous year, reviewed annually;
- It is provided that the CASP is not subject to the aforesaid obligation, where it is authorised by the Cyprus Securities and Exchange Commission to operate, pursuant to the Investment Services and Activities and Regulated Markets Law.
- (2) The capital requirements of subparagraph (1) shall consist of Common Equity the Tier 1 items referred to in Articles 26 to 30 of Regulation (EU) No 575/2013 after the deductions in full, pursuant to Article 36 of that Regulation, without the application of threshold exemptions pursuant to Articles 46 and 48 of that Regulation;
- (3) For the purposes of point (b) of subparagraph (1), the CASP shall calculate the amount of the previous year 's fixed overheads, on the basis of data from the applicable accounting framework, deducting the following items from the total expenditure, after the distribution of profits to shareholders, in the most recent audited annual financial statements:
- (a) staff bonuses and other remuneration, to the extent that they depend on the net profit of the CASP in the respective year;
 - (b) employees', directors' and partners' shares in profits;
 - (c) other appropriations of profits and other variable remuneration, to the extent that they are fully discretionary;
 - (d) non-recurring expenses from non-ordinary activities.
- (4) Where a CASP has not been in business for one year from the date on which it started operating, it shall use, for the purpose of calculation referred to in point (b) of subparagraph (1), the projected fixed overheads included in its projections for the first 12 months' trading, as submitted with its application for registration in the CASP Register.

- Conflict of interests. 15. (1) The CASP must maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps designed to prevent conflicts of interest from adversely affecting the interests of its clients.
- (2) The CASP must take all appropriate steps to identify and to prevent or manage conflicts of interest between itself, including its managers, employees and any person directly or indirectly linked to it by control, and its clients or between one client and another.
- (3) Where the organisational or administrative arrangements made by the CASP in accordance with subparagraph (1) are not sufficient to ensure, with reasonable confidence, that risks of damage to client interests will be prevented, the CASP shall clearly disclose to the client the general nature or/and sources of conflicts of interest and the steps taken to mitigate those risks, before undertaking business on its behalf.
- (4) The notification to the client provided for in subparagraph (3) shall be made via a durable medium and shall include sufficient details, taking into account the nature of the client to enable that client to make an informed decision.

PART VI CHARGES AND FEES

- Charges and fees. Section. 61 E(8)(b) 16. (1) For the purposes of examining the application for registration in the CASP Register, the CASP shall pay to the Cyprus Securities and Exchange Commission a fee of 10,000 euros.

Where the application for registration in the CASP Register is approved by the Cyprus Securities and Exchange Commission, the CASP does not pay any fees or charges to the Cyprus Securities and Exchange Commission for the first year of its registration in the CASP Register.

In case an application for registration in the CASP Register is not approved by the Cyprus Securities and Exchange Commission, the fee paid by CASP is non-refundable.

(2) For the purposes of renewal of registration in the CASP Register for a period of one (1) year, the CASP pays a fee of 5,000 euros.

(3) For the submission of a notice of material change, a fee shall be paid as follows:

(a) EUR 1,000 per service or activity for the submission of a notification under point (a) of subparagraph (1) of paragraph 12;

(b) EUR 2,000 for the submission of a notification under point (c) of subparagraph (1) of paragraph 12 per nomination and the amount shall be multiplied by the number of notifications;

(c) EUR 5,000 for the submission of a notification under point (d) of subparagraph (1) of paragraph 12;

(d) EUR 1,000 for the submission of a notification under point (e) of subparagraph (1) of paragraph 12;

PART VII FINAL PROVISIONS

Transitional provisions.	17.	The provisions of point (b) of subparagraph (1) of paragraph 14, shall enter into force on 1 st January 2022, as follows: <ul style="list-style-type: none"> (a) 30% of the relevant amount from 1st January 2022; (b) 60% of the relevant amount from 1st January 2023; (c) 100% of the relevant amount from 1st January 2024.
Entry into force.	18.	The Directive shall enter into force as of its publication in the Official Gazette of the Republic.

ANNEX (Paragraphs 2 and 14)

CASP	Type of Services in cryptoassets	Initial Capital
Class 1	CASPs that provide investment advice	EUR 50.000
Class 2	CASPs providing the service referred to in Class 1 and/or any of the following services: <ul style="list-style-type: none"> i. reception and transmission of client orders and/or ii. execution of orders on behalf of clients and/or iii. exchange between crypto assets and fiat currency and/or iv. exchange between crypto assets and/or v. participation and/or provision of financial services related to the distribution, offering and/or sale of cryptoassets, including 	EUR 125.000

the initial offering and/or

- vi. placement of crypto assets without firm commitment and/or
- vii. portfolio management.

Class 3	CASPs that provide any of the services referred to in Class 1 or 2 and/or:	EUR 150.000
	<ul style="list-style-type: none">i. administration, transfer of ownership, transfer of site, holding, and/or safekeeping, including custody, of cryptoassets or cryptographic keys or means enabling control over cryptoassets and/orii. underwriting and/or placement of cryptoassets with firm commitment and/oriii. operation of a multilateral system, which brings together multiple third-party buying and selling interests in cryptoassets in a way that results in a transaction.	

APPENDIX 2 – LIST OF FORMS AND QUESTIONNAIRES FOR REGISTRATION

Number	Title
Form 188-01	Application for CASP Registration and for Amendment of Registration
Form 188-02	Personal Questionnaire for CASP Beneficiaries - Natural Persons
Form 188-03	Personal Questionnaire for CASP Beneficiaries who are Legal Persons
Form 188-04	Personal Questionnaire for CASP Beneficiaries who are Trusts
Form 188-05	Personal Questionnaire for Persons Holding a Management Position
Form 188-06	List of Persons Holding a Management Position
Form 188-07	Notification Form for EEA CASPs