
TO : **Regulated Entities**

- i. **Cyprus Investment Firms**
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- iv. **Internally managed UCITS**
- v. **Alternative Investment Fund Managers**
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- ix. **Crypto Asset Service Providers**
- x. **Small AIFMs under Law 81(I)/2020**

FROM : **Cyprus Securities and Exchange Commission**

DATE : **9 July 2025**

CIRCULAR NO. : **C721**

SUBJECT : **Application of section 62(2) of the Prevention and Suppression of Money Laundering Activities Law of 2007 (L. 188(I)/2007)**

The Cyprus Securities and Exchange Commission (the 'CySEC'), with this circular, which replaces Circular C367, wishes to inform interested parties regarding **section 62(2) of the Prevention and Suppression of Money Laundering Activities Law 188(I)/2007 (the 'Law')**, regarding the obligation to verify the identity of the customer and the beneficial owner.

According to **section 62, subsections (1) and (2), of the Law**:

'62. (1) The verification of the identity of the customer and the beneficial owner is performed before the establishment of a business relationship or the carrying out of the transaction.

Provided that in the case where the obliged entity entering into a new business relationship with a corporate or other legal entity, or a trust or a similar legal arrangement, which are subject to the registration of beneficial ownership information pursuant to the provisions of section 61A or 61B or 61C, such obliged entities shall collect proof of registration or an excerpt of the beneficial ownership information held in the relevant register.

(2) By derogation from the provisions of subsection (1), the verification of the identity of the customer and the beneficial owner may be completed during the establishment of a business

relationship, if this is necessary so as not to interrupt the normal conduct of business and where there is little risk of money laundering or terrorist financing occurring:

Provided that in such a case the customer and beneficial owner identity verification procedures shall be completed as soon as possible after the initial contact.

[...].

CySEC would like to draw the attention of interested parties to the following:

- (i) According to **section 61(1), paragraphs (a) and (b), of the Law**, the identification procedures and due diligence measures include the 'identification' and 'verification' of the customer and the beneficial owner, respectively.
- (ii) The identification of the customer and the beneficial owner is completed by the obliged entity before entering into a business relationship¹ with the person in question.

It is noted that, simultaneously to the process of identifying the customer and the beneficial owner, the creation of an economic profile for the customer is also included.

With regard to CIFs, it is noted that, before entering into a business relationship, the following are carried out (where applicable):

- (a) a suitability test in accordance with **section 26(2) of the Law regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets of 2017 (the 'Law 87(I)/2017')** and/or
- (b) an appropriateness test in accordance with **section 26(3) of Law 87(I)/2017**.
- (iii) As a general rule, in accordance with **section 62(1) of the Law**, the verification of the identity of the customer and the beneficial owner is also completed by the obliged entity before entering into a business relationship with the person in question.

¹ 'business relationship' under section 2 of the Law means 'a business, professional or commercial relationship between the customer and the obliged entity which is connected with the professional activities of an obliged entity and which is expected by the obliged entity, at the time when the contact is established, to have an element of duration'

(iv) By way of derogation from the general rule of **section 62(1) of the Law**, in accordance with **section 62(2) of the Law**, the verification of the identity of the customer and the beneficial owner of an obliged entity may be completed during the establishment of a business relationship, provided that all of the following conditions are met:

- (a) this is required in order not to interrupt the smooth conduct of business,
- (b) the risk of money laundering or terrorist financing is low, and
- (c) the verification of the identity of the customer/beneficial owner is completed as soon as possible after the initial contact.

(v) For the purposes of implementing point (iv) above, CySEC considers that, when assessing the risk involved in entering into a business relationship, where the identity of the customer and the beneficial owner has not been verified, the risk may be assessed as little provided that, among others and as a minimum, all the following conditions are met:

- 1) The total deposit amount of the customer/beneficial owner does not exceed €2,000, regardless of the number of accounts that the customer maintains with the obliged entity, where the verification of **identity** has not been completed. It is noted that the amount of €2,000 does not automatically classify the business relationship with the customer as low risk. The obliged entity must assess the risk of each customer's business relationship with the appropriate procedure in accordance with the **Law** and **the CySEC Directive for the Prevention and Suppression of Money Laundering (the 'CySEC Directive')**.
- 2) The obliged entity accepts deposits only from a bank account (or from another instrument linked to a bank account, e.g. credit card), which is in the name of the customer with whom it enters into a business relationship.
- 3) The total time during which the verification of the identity of the customer and the beneficial owner has not been completed shall not exceed 15 days from the initial contact.

It is noted that the 'initial contact' takes place at the moment when either the customer accepts the terms and conditions or the customer's first deposit is made, whichever occurs first.

During the 15-day period from the initial contact, the obliged entity shall take all reasonably necessary measures to ensure that the percentage of customers who do not comply with the request for documents to verify their identity, is particularly low, e.g.

requests/reminds the customer/beneficial owner of the need to submit the necessary documents to verify their identity.

If the verification of the identity of the customer/beneficial owner is not completed within the stipulated period of 15 days, the business relationship shall be terminated on the day of the expiry of the said period and all deposits shall be returned to the customer/beneficial owner, to the same bank account from which they originated. The refund process shall begin immediately, regardless of whether the customer has requested a refund or not.

When refunding the money (deposits), any profits made by the customer during his transactions shall be included and any losses incurred shall be deducted.

- 4) No amount is withheld and no account is frozen except in cases of suspected money laundering, where the obligated entity must immediately file a complaint with MOKAS with the appropriate procedure in accordance with the Law and the CySEC Directive.

The obligated entities must appropriately/adequately/timely warn the clients about the above procedure, including for example the policy for handling open positions, the procedure for possible refunds, and obtain their explicit consent regarding the said procedure before initiating a business relationship.

- (vi) Obligated entities must include in the AML manual, the internal practice, measures, procedures and controls for the proper and effective implementation and monitoring of compliance with **section 62(2) of the Law**.
- (vii) No monetary deposit is accepted by an obliged entity unless the customer and the beneficial owner provide the necessary information for the completion of the identification procedures of the customer and the beneficial owner and for the creation of an economic profile of the customer.
- (viii) For the verification of the identity of customers and beneficial owners, CySEC encourages obliged entities to proceed with it before entering into a business relationship. In the exceptional cases where the verification of the identity of customers and beneficial owners takes place during the establishment of the business relationship, CySEC calls on obliged entities to take into account, in each case, at least what is mentioned above.

Administrative Service Providers (the 'ASPs'):

The specification of the derogation of **section 62 of the Law**, as presented in point (v) above, does not apply in the case of the provision of administrative services by ASPs due to the nature of the activities of ASPs.

ASPs must comply at all times with the provisions of **section 62 of the Law**. In the exceptional case where an ASP intends, pursuant to **section 62(2) of the Law**, to complete the verification of the identity of the customer and the beneficial owner during the conclusion of the business relationship (and not before), it must fully justify such action and record such justification as to the reasons why:

- (i) the verification of the identity of the customer and the beneficial owner before the conclusion of the business relationship would interrupt the smooth conduct of its operations, and
- (ii) the risk of money laundering or terrorist financing is low.

Sincerely,

Dr. George Theocharides
Chairman, Cyprus Securities and Exchange Commission