

**COMPLIANCE CIRCULAR****25/2024 [CC 25_2024]****To:****ALL MEMBERS, FIRMS and ALL
COMPLIANCE OFFICERS OF THE
INSTITUTE****Date:****9 July 2024****Subject:****Terrorist Financing Alert**

The Institute of Certified Public Accountants of Cyprus would like with this circular to alert Members and Firms of the risks and threats associated to Terrorist Financing.

Terrorist financing is an increasing threat nowadays and may take place using both legitimate and illegitimate funds. The primary tool for mitigating the terrorist financing risk is transaction monitoring and strong Know Your Client (KYC). It is an inherently difficult area to manage risks since the amounts involved may be either very small or very large. In many cases in the past, intelligence and soft information played an integral role in the detection and prevention of terrorist financing and terrorist activities and was mostly dealt with by law enforcement. These days, given the nature of services provided, and the role of professionals as gatekeepers, it is a requirement for obliged entities to take an active role in the prevention phase.

As part of our efforts to increase our Members and Firms awareness on Terrorist Financing risks, ICPAC would like to draw attention on the risk areas and highlight where the focus of the Members needs to be directed:

**ΣΥΝΔΕΣΜΟΣ ΕΓΚΕΚΡΙΜΕΝΩΝ
ΛΟΓΙΣΤΩΝ ΚΥΠΡΟΥ**

Λεωφόρος Βύρωνος 11, 1096 Λευκωσία
Τ.Θ. 24935, 1355 Λευκωσία, Κύπρος
Τ.: +357 22870030, Φ.: +357 22766360

**THE INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS OF CYPRUS**

11 Byron Avenue, 1096 Nicosia
P.O. Box 24935, 1355 Nicosia, Cyprus
T.: +357 22870030, F.: +357 22766360

info@icpac.org.cy
www.icpac.org.cy



A. Charitable organisations, Non-Profit Organisations (NPOs) or Non-Governmental Organisations (NGOs)

Considerations:

- Donations may be intentionally channeled to terrorist groups
- Sham charities may exist to exclusively raise funds for a terrorist organisation
- Fraudulent fundraising under the umbrella of a charity organisation, without the actual participation of the charitable organisation
- NGOs that operate near war zones or high-risk jurisdictions
- NGOs that operate in or near sanctioned jurisdictions with or without relevant licenses from appropriate authorities depending on nexus (EU, OFAC, OFSI or other)
- NPO serves as an intermediary for a terrorist organization.

Area of Focus:

- Ownership, control and structure: Who controls the charitable organisation/NPO?
 - ❖ PEPs
 - ❖ Designated persons
 - ❖ Individuals with criminal background or negative media
 - ❖ Network of charity and relationships with extremists
- Activities of charity/NPO. Are they in fact intended to support individuals/groups in need?
- Funding
 - ❖ Is the charitable organisation/NPO funded by the government or private funding?
 - ❖ Is funding made by named or anonymous donors?
 - ❖ Is funding requested for new activities and new locations?
 - ❖ Are the amounts raised in line with the declared mission of NPO or they are disproportional?



- Funding methods - Using traditional Financial Institutions or alternative methods through EMI's, Payment institutions, Crowdfunding, Payment in Cryptos etc
- Where are the funds sent/received?
 - ❖ Is the account registered under the name of the charitable organisation/NPO?
 - ❖ Is the account registered under the name of an unrelated party?
 - ❖ Where is the account located (EU/non-EU banking institution)?
 - ❖ Are the contributions received from the donors located in the same country as the NPO?
- Geographical profile – location spread and whether it is close to areas where known terrorist groups are active
- Is there evidence of a license/registration?

B. Use of cash

Considerations:

- Terrorists may use cash to transfer funds internationally
- Terrorists may use cash in various purchases (tickets, tactical gear, other material) to avoid creating electronic records of their purchases

Area of Focus:

- Reasons for use of cash - Does it make sense and is it in line with the client's business profile/activities?
- Profile and network of persons (Natural, legal or other) and relationships with extremists

C. Transfers/gifts

Considerations:

- Terrorist financiers may abuse Banks, Payment Institutions, Electronic Money Institutions to transfer funds

Area of Focus:

- Profile and relationship of recipient and remitter



- Business profile/activities of the recipient
- Background screenings using specialized tools
- Enquire on reasons for transfers and compare to current understanding/ economic profile of client - Does it make sense?
- Relationships with extremists
- Jurisdictions that the money are sent to, which are vulnerable to TF
- Description in the payment details which would raise alert

D. Crypto Assets

Considerations:

- Terrorists may abuse crypto assets for anonymous cross-border peer-to-peer transfers
- Crowd funding or charities may collect crypto assets in the form of donations to finance terrorism
- Online fund-raising campaigns using dark coins or anonymous donations

Area of Focus:

- Profile and network of persons (Natural, legal or other)
- Enquiries on reasons for use of crypto assets
- Crypto wallet screening on sanctions lists
- Crypto wallet activity review including the use of mixers or tumblers
- Ensure wallets screening is activated on screening tools and use accordingly
- Consideration of use of specialized blockchain technology tools

E. Use of inactive or shell companies

Considerations:

- To obscure financial transactions to funnel funds and hide audit trail
- To create a complex structure and hide the true beneficial owner



Area of Focus:

- Profile and network of key persons involved (Owners, contact persons, senior officials, Attorneys, etc)
- Background screenings using specialized tools
- Geographical locations of operations or investments – is it in areas where known terrorist groups are active?
- Who controls this entity?
- Business purpose of existence of the company and rational of transactions

It is noted that in case of failure to report knowledge or suspicion of terrorist financing, this is an offence as per the provisions of the **Combating of Terrorism and Victim Protection Law of 2019 (N.75(I)/2019)**.

A more comprehensive guidance on Terrorist Financing we will also be circulated in the near future for our members and firms.