



CENTRAL BANK OF CYPRUS

EUROSYSTEM

Reference Number: BS 6020
Telephone: 22714402
Fax: 22378152
Email: bsrd.compliance@centralbank.cy

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(Circular Letter)

To the Money Laundering Compliance Officers
of all Credit, Payment and E-money institutions.

BY EMAIL

Dear Sir/Madam,

Subject: Shell companies/entities

With reference to the above and further to the circular letter of 14 June 2018, the Central Bank of Cyprus issues the current circular, which enters into force **immediately**, setting out a revised definition for shell companies/entities as follows:

1. The term "shell company/entity" refers to a limited liability company or any other legal/business entity that bears the following characteristics:

- (a) It has no physical presence or operations in its country of incorporation/registration (other than a mailing address);

Physical presence of a company/entity is construed as having a place of business or operations (own or rented premises) in the country of registration/incorporation. Also, absence of meaningful mind and management could be construed as lack of physical presence. The presence of a third person providing merely nominee services including company secretary duties does not constitute on its own physical presence and

- (b) It has no established economic activity in its country of incorporation/registration, little to no independent economic value and no documentary proof to the contrary.

Notwithstanding the above, however, the following circumstances could indicate economic activity:

- i. the company/entity is established for the purpose of holding stock or shares or other equity instruments of another business entity or entities engaged in legitimate business with identifiable ultimate beneficial owner(s);
- ii. the company/entity is established for the purpose of holding intangible or other assets including real estate, ship, aircraft, portfolio of investments, debt and financial instruments;
- iii. the company/entity is established to facilitate currency trades and asset transfers, corporate mergers as well as carrying out asset management activities and trading of shares;
- iv. the company/entity acts as a treasurer for companies recognised as a group or manages the activities of the group;
- v. any other case where convincing evidence can be provided that the company/entity is engaged in legitimate business, with identifiable ultimate beneficial owner(s).

2. If an entity falls within the above definition and

- (i) it is registered in a jurisdiction where companies/entities are not required to submit to the authorities independently audited financial statements and does not voluntarily prepare audited financial statements by independent qualified professional accountants who are licensed or regulated and/or
- (ii) it has a tax residence in a jurisdiction included in the EU list of non-cooperative jurisdictions for tax purposes or the OECD's list of non-cooperative jurisdictions for tax purposes or has no tax residence whatsoever,

then business relationships with such an entity shall be avoided.

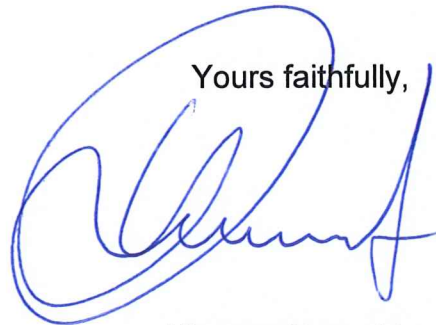
3. In all other cases of companies/entities falling within the definition in 1 above, the institution shall decide on whether to engage in or maintain a business relationship applying a risk based approach in accordance with the legal and regulatory framework and providing fully substantiated justification of such a decision which should be appropriately documented and recorded.

4. The customer acceptance policy of the institution should be appropriately revised by the Money Laundering Compliance Officer in order to comply with this circular with immediate effect.

In any event, institutions are reminded of their obligations under all applicable legislation and directives to conduct all necessary due diligence measures and checks, among others concerning the identity of the ultimate beneficial owners, the source of funds and the transactional behaviour of their customers.

The above shall be incorporated in the relevant CBC Directives.

Yours faithfully,



Yiannos Demetriou
Acting Senior Director
Supervision Division