

OPINION

US steps in to clean up Cyprus

By **ROBERT LYDDON**

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In June 2018 the Central Bank of Cyprus (CBC) sent a circular to Cyprus' banks to improve due diligence on so-called shell companies, as part of Cyprus' campaign to improve its image for countering money laundering and combatting the financing of terrorism (otherwise known as AML/CFT).

Cyprus had undertaken to the EU, as a condition of its financial bailout in 2013, to eliminate its status as a haven for money laundering and tax avoidance.

Little was done at a practical level either at the local or the EU level to ensure compliance, and now it has fallen to the US to bring about a change of direction.

Cyprus' status rests on the 'Cyprus business model', which involves 'introducers' based in Cyprus developing business propositions for customers outside Cyprus, and then establishing companies in Cyprus and accounts with local banks.

Close connections have been shown to exist between these introducers - law offices, accountants and company formation agents - and senior politicians and bankers.

The Cyprus companies so established frequently rank as shell companies - they have no genuine trade.

Shell companies feature in tax avoidance and evasion, enjoying low or no taxation in their country of incorporation and benefiting from Double Taxation Treaties (DTTs) that the respective country has signed with other countries.

Cyprus has a wide network of DTTs and a most favourable one with Russia.

Shell firms

Cyprus shell companies have featured in cases like the [Panama Papers](#), [Hermitage/Magnitsky](#), Liberty Reserve, the [Paradise Papers](#), and that of the Serbian president Slobodan Milosevic, where they were used as vehicles for the purchase of armaments for the Balkan wars.

The run-up to CBC's circular was US focus on the usage of shell companies in Cyprus by entities connected with Russia.

In April the combination of the US Treasury's Office of Foreign Assets Control (Ofac), and its Financial Crimes Enforcement Network (FinCen), sent the Cyprus authorities 150 names of Russian entities companies allegedly operating through financial institutions in Cyprus.

Some 114 names were sent privately, and 36 added publicly to Ofac's list of sanctioned entities: seven Russian 'oligarchs,' 17 senior government officials, and 12 Russian companies.

Ofac included Viktor Vekselberg, Bank of Cyprus's largest shareholder [since the conversion of his deposits into shares](#) during the 2013 bailout.

There then followed some appearance of action.

CBC mandated on the banks a review of their connections with the 150 Ofac/FinCen names, and CBC ordered the

freezing of accounts at seven banks.

On 4 May, US Department of the Treasury assistant secretary for terrorist financing Marshall Billingslea visited Cyprus and was duly assuaged with a report on the actions taken.

On 8 May, an article appeared in the Cyprus press contending that 55,000 accounts had been closed in recent years, and large volumes of business turned away by Cyprus' banks voluntarily, involving an annual give-up in fees of €300m - an astonishingly high number of questionable accounts for a small country that pretended to have already cleaned up its AML/CFT act.

Style and substance

The impression of Cyprus' authorities determination to enforce change is contradicted by other evidence however.

The Cyprus authorities hired a PR firm in the US to project a more positive view of Cyprus towards those organisations charged with AML/CFT matters, like Financial Action Taskforce and Moneyval.

Cyprus has launched a campaign to position itself as a European centre for FinTech (start-up companies based on new technology) and for anything to do with cryptocurrency (of which Bitcoin is an example).

CBC's June circular did not proscribe shell companies as customers: it required that banks identify shell companies in their customer base, inform the supervisor before 31 July 2018, and "assess the future of their future relationship with them" against a series of criteria, and place the results on the customer's file.

In fact, the number of new company registrations in June 2018 was 1,123 - an annual increase of 17 percent.

In August 2018, FBI special counsel Robert Mueller's indictment against US president Donald Trump's former campaign manager Paul Manafort contained many pages of lists of Cyprus shell companies, their Cyprus bank accounts, and the payments made out of them.

Cyprus also continues to attract foreign investors with its [passport scheme](#): 3,300 EU passports have been issued to foreign investors and their family members under the scheme since the 2008 financial crisis, according to Cyprus media sources - for a stated profit of €4.5bn.

Money train

The money train keeps rolling.

Only the Cyprus branch of a small foreign bank called FBME has been closed by CBC for AML/CFT reasons - in July 2014.

FBME had been served by FinCen with a notice of finding citing FBME as an institution of "primary money laundering concern" surrounding about a dozen of FBME's 8,000 accounts.

The comparison with the 55,000 accounts actually closed in Cyprus' banks as a whole, and the ongoing list of scandals since, indicates that FBME was used as a scapegoat.

There remains a major gap between words and actions in terms of Cyprus' response to criticism from the US and the EU.

It may yet prove rather less easy to get Billingslea and the US off their back than it was to unilaterally annul the investment of FBME's shareholders, and to overlook the undertakings made to the EU in the context of the 2013 bailout.

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25. SEP,
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15. AUG,
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