



OCC 2008-14
OCC BULLETIN

Comptroller of the Currency
Administrator of National Banks

Subject: **Bank Secrecy Act/Anti-Money Laundering**

Description:

Guidance to Financial Institutions on the Money Laundering Threat Involving the Turkish Cypriot-Administered Area of Cyprus

Date: May 1, 2008

TO: Chief Executive Officers, BSA Officers, and Compliance Officers of All National Banks; Federal Branches and Agencies; Department and Division Heads; and All Examining Personnel.

On March 20, 2008, the Financial Crimes Enforcement Network (FinCEN) issued guidance informing banks and other financial institutions operating in the United States of serious deficiencies existing in the anti-money laundering regime of the Turkish Cypriot-administered area of Cyprus.

The guidance follows the February 28, 2008, statement issued by the Financial Action Task Force (FATF) on the need for financial institutions to pay special attention to money laundering and financing of terrorism risks in transactions with financial institutions operating in the Turkish Cypriot-administered area of Cyprus. Collectively, banks in the Turkish Cypriot-administered area do not have the ability to initiate or receive SWIFT (Society for Worldwide Interbank Financial Telecommunication) wire transfers without the assistance of third-country based financial institutions. For this reason, transactions involving banks in the Turkish Cypriot-administered area may not be readily apparent to financial institutions. In addition to anti-money laundering and combating the financing of terrorism (AML/CFT) deficiencies existing in the banking sector, casinos operating in the Turkish Cypriot-administered area have been noted as being conduits for money laundering.

The guidance also spells out the requirements under 31 CFR 103.176 for financial institutions to apply due diligence to correspondent accounts maintained for foreign financial institutions. Under this regulation, covered financial institutions must establish due diligence programs that include appropriate, specific, risk-based, and, if necessary, enhanced policies, procedures, and controls that are reasonably designed to detect and report known or suspected money laundering activity conducted through or involving any correspondent account established, maintained, administered, or managed in the United States.

/signed/

Ann F. Jaedicke
Deputy Comptroller for Compliance Policy

Attachment:

- FinCEN Guidance
[<http://www.fincen.gov/fin-2008-a003.pdf>]



Department of the Treasury Financial Crimes Enforcement Network

Advisory

FIN-2008-A003

Issued: March 20, 2008

**Subject: Guidance to Financial Institutions on the Money Laundering Threat
Involving the Turkish Cypriot Administered Area of Cyprus**

The Financial Crimes Enforcement Network (FinCEN) is issuing this advisory to inform banks and other financial institutions operating in the United States of serious deficiencies in the anti-money laundering regime of the Turkish Cypriot administered area of Cyprus. On February 28, 2008, the Financial Action Task Force (FATF) issued a statement on the need for financial institutions to pay special attention to money laundering and financing of terrorism risks in transactions with financial institutions operating in the Turkish Cypriot administered area of Cyprus.

Cyprus has been *de facto* divided since 1974. The southern two thirds of the country is under the control of the Government of the Republic of Cyprus. The northern one third of the country is under the control of a Turkish Cypriot administration that in 1983 proclaimed itself the “Turkish Republic of Northern Cyprus” (“TRNC”). The United States does not recognize the “TRNC,” nor does any country other than Turkey. This advisory refers only to financial institutions in the area administered by Turkish Cypriots, which are not controlled or supervised by authorities of the Government of the Republic of Cyprus.

A two-tiered banking system exists within the Turkish Cypriot administered area of Cyprus, including a group of offshore banks that can effectively opt out of many rules and regulations governing their operating conditions, including anti-money laundering and combating the financing of terrorism (AML/CFT) requirements. While the Turkish Cypriot “Central Bank” is not an internationally recognized banking supervisor, it does impose some level of regulatory scrutiny on its onshore banks. The offshore banks, however, are almost entirely exempt from supervision. As of the time of publication of this advisory, 24 onshore banks and 14 offshore banks are believed to operate in the Turkish Cypriot administered area.¹ Collectively, banks in the Turkish Cypriot administered area do not have the ability to initiate or receive SWIFT wire transfers without the assistance of third-country based financial institutions. For this reason, transactions involving banks in the Turkish Cypriot administered area may not be readily apparent to financial institutions. In addition to AML/CFT deficiencies present in the banking sector, casinos operating in the Turkish Cypriot administered area have been noted as being conduits for money laundering.

¹ See U.S. Department of State, 2008 International Narcotics Control Strategy Report, issued March 1, 2008 (INCSR).

Turkish Cypriot authorities have begun to take steps to address some of the major deficiencies in the area's AML/CFT regime, including the passage of an anti-money laundering law and the establishment of an "Anti-Money Laundering Committee." However, the Turkish Cypriot administered area continues to lack an operational financial intelligence unit and new legislation intended to fix many of these deficiencies has not been fully implemented. While the FATF and United States government welcome ongoing efforts by the Turkish Cypriot authorities to address these shortcomings, the existing deficiencies present an ongoing money laundering and financing of terrorism vulnerability to the international financial system.

Thus, banks and other financial institutions operating in the United States should give enhanced scrutiny to any transaction with a financial institution operating in the Turkish Cypriot administered area of Cyprus. Banks and other financial institutions should further note that transactions involving wire transfers from banks in the Turkish Cypriot administered area may not be readily apparent and consider the additional risks this may pose.

31 C.F.R. § 103.176 requires covered financial institutions to apply due diligence to correspondent accounts maintained for foreign financial institutions. Under this regulation, covered financial institutions must establish due diligence programs that include appropriate, specific, risk-based, and, where necessary, enhanced policies, procedures, and controls that are reasonably designed to detect and report known or suspected money laundering activity conducted through or involving any correspondent account established, maintained, administered, or managed in the United States. In addition, consistent with the standard for reporting suspicious activity as provided for in 31 C.F.R. part 103, if a financial institution knows, suspects, or has reason to suspect that a transaction involves funds derived from illegal activity or that a customer has otherwise engaged in activities indicative of money laundering, terrorist financing, or other violation of federal law or regulation, the financial institution shall then file a Suspicious Activity Report.