Pelaghias Christodoulou Vrachas

LAW FIRM | EST. 1920

AML DIRECTIVE AMENDMENT KEY CHANGES INTRODUCED BY CYSEC'S NEW DIRECTIVE 282/2024

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Introduction

The regulatory environment within the European Union (EU) remains dynamic, necessitating regular revisions to legislative frameworks to adapt to emerging challenges and technological advancements. A recent significant development involves the amendment of the Anti-Money Laundering (“**AML**”) Directive by the Cyprus Securities and Exchange Commission (“**CySEC**”) through Directive **282/2024**. This updated directive introduces substantial changes, notably expanding the scope of the term "**identification document**" and replacing the former exemption rule related to client onboarding via video call, which previously had a capped annual deposit limit of EUR 2,000.

"Identification Document" Definition

Directive 282/2024 notably expands the range of permissible "identification documents" for Anti-Money Laundering (AML) compliance purposes. Formerly, the acceptable forms of identification were limited to **passports** and **national identity cards**, creating practical hurdles in verifying the identities of individuals without these specific documents.

The new directive expands the definition to include various **government-issued documents** that feature the individual's **full name**, **date of birth**, and **photo**. The acceptable documents now include:

- National identity card
- Passport
- Driving license
- Residence permit

The extension seeks to enhance versatility and inclusivity in the identification process, streamlining adherence to AML regulations and catering to a wider clientele. By incorporating additional documents such as driving license and residence permit, CySEC is enhancing the robustness of the verification process bolstering its integrity, and fortifying defenses against identity fraud.

Revamping Video Call Onboarding: New Standards Replace Old Derogation Rule

Directive 282/2024 has implemented a notable change by substituting the former Derogation Rule. This rule allowed client onboarding through video calls with a yearly deposit limit of EUR 2,000. Initially intended to streamline onboarding procedures while capping risks, the rule has been revised due to technological advancements and the escalating complexity of financial crimes, prompting a reconsideration of its effectiveness.

Directive 282/2024 abolishes this exemption, enforcing more stringent procedures and protocols for remote onboarding. Although video call verification is still acceptable, the previous limit on deposit amounts is **no longer** in effect. Financial institutions are now obliged to establish thorough Know Your Customer (KYC) procedures, regardless of the deposited amount. Moreover, Obliged Entities ("OEs") are mandated to inform CySEC of the digital procedures they intend to utilise for remote verification and validation of client identities before implementation.

These measures include:

- Enhanced due diligence (EDD) for clients or transactions with higher risk
- Utilisation of advanced biometric verification techniques
- Cross-referencing identification documents against authoritative databases

The removal of the EUR 2,000 cap underscores CySEC's commitment to stringent AML practices, ensuring that all clients undergo thorough verification procedures before engaging in financial transactions. This change aims to eliminate potential loopholes that could be exploited for money laundering or terrorist financing.

For a more comprehensive understanding of the underlying rationale, please refer to pages 42 onwards of the EBA Guidelines on the utilisation of Remote Customer Onboarding Solutions as outlined in Article 13(1) of Directive (EU) 2015/849 (referred to as the "EBA Guidelines").

In essence, financial and credit institutions are required to evaluate and confirm adherence to the standards stipulated in the EBA Guidelines when utilising **non-qualified trust services** and identification processes regulated, recognised, approved, or accepted by the respective national authority. To establish a robust framework for remote customer onboarding, the Guidelines specify the protective measures that institutions should implement in such scenarios.

What Financial Institutions need to know

The amendments introduced by **Directive 282/2024** carry significant implications for financial institutions under **CySEC's** purview. Institutions must now revise their internal policies and procedures to ensure compliance with the new requirements.

Key actions include:

- Updating client onboarding procedures to reflect the expanded definition of identification documents
- Investing in advanced technologies to facilitate secure and reliable video call verifications
- Training personnel on the new regulatory requirements and the critical importance of rigorous KYC and EDD processes

By adhering to these updated guidelines, financial institutions can strengthen their anti-money laundering (**AML**) compliance frameworks, thereby contributing to a more resilient and transparent financial system.

In a related development, CySEC has issued a Policy Statement concerning the enhancement of non-face-to-face (**NFTF**) customer onboarding processes utilising electronic means. This statement aims to articulate the recent regulatory changes governing digital onboarding. It defines the evolution of the initial policy propositions from **CP-02-2020** in response to the release of the **EBA** Guidelines and stakeholder feedback.

The Policy Statement outlines the obligation of obliged entities (**OEs**) to adopt and execute electronic mechanisms for remote customer identification and verification of identities (**RCOS**) in accordance with Section **61(1)(a)** of the AML/CFT Law.

This section stresses the importance of sourcing data and information from a reliable and independent source. Moreover, the document offers insights into the interplay between **CP-02-2020** and the subsequent EBA Guidelines, ensuring coherence and alignment across regulatory frameworks.

Conclusion

Directive 282/2024 marks a substantial progression in the European Union's continuous endeavors to combat money laundering and financial crime. Through broadening the scope of what constitutes an "**identification document**," CySEC is reinforcing the integrity of the financial system.

It is imperative for financial institutions to promptly adjust to these amendments, guaranteeing that their anti-money laundering (AML) protocols and procedures are resilient, up-to-date, and equipped to tackle modern and upcoming challenges.