
TO : **Regulated Entities**

- i. CIFs**
- ii. ASPs**
- iii. UCITS Management Companies**
- iv. Internally managed UCITS**
- v. AIFMs**
- vi. Internally managed AIFs**
- vii. Internally managed AIFLNP**s
- viii. Companies with sole purpose the management of AIFLNP**s
- ix. Crypto Asset Service Providers**
- x. Small AIFMs under Law 81(I)/2020**

FROM : **Cyprus Securities and Exchange Commission**

DATE : **20 April 2023**

CIRCULAR NO. : **C566**

SUBJECT : **MOKAS Strategic Analysis Report - Financial Intelligence Information for Combating Trafficking in Human Beings**

The Cyprus Securities and Exchange Commission ('CySEC') informs the Regulated Entities of the Strategic Analysis Report - Financial intelligence information for COMBATING TRAFFICKING IN HUMAN BEINGS ('Report') issued by MOKAS (attached), which is an Operational Alert outlining red flag indicators and typologies to support financial investigators, obliged entities and all stakeholders involved, in identifying potential instances of trafficking in human beings so that the related activity can be reported to the Cyprus FIU via Suspicious Transaction/Activity Reports (STRs and SARs).

This Report provides guidance to reporting institutions and communication of human trafficking related typologies as well as, financial indicators to improve suspicious transaction reporting related to trafficking in human beings.

Please note that according to the Report:

- a new report indicator - trafficking in human beings - will be added to the system GoAML and Reporting Entities will be urged to use it when submitting a report to the FIU,
- reporting entities are advised to include in the narrative of the suspicion key words, such as "Human Trafficking" and "Trafficking in Human Beings" when submitting reports relevant to trafficking in human beings,
- financial institutions should include as much relevant and detailed information as permissible to aid the analysis process of the FIU,

- first line employees of Money Service Businesses and Financial Institutions should receive adequate training to be able to detect unusual behaviors,
- **the timing of reporting in such cases is of extreme importance, having in mind the nature of such offences.**

The obliged entities are reminded that the STRs / SARs constitute one of the main weapons in the fight against financial crimes, including trafficking in human beings, which enable MOKAS to facilitate the detection, prevention and deterrence of all stages of money laundering and the financing of terrorist activities by providing actionable financial intelligence disclosures to Law Enforcement Agencies.

Therefore, all Regulated Entities are requested to read carefully the Report and follow and incorporate in their policies and procedures the guidance/instructions/good practises included therein.

Sincerely,



Dr. George Theocharides
Chairman, Cyprus Securities and Exchange Commission



MOKAS
CYPRUS FINANCIAL INTELLIGENCE UNIT

STRATEGIC ANALYSIS REPORT
Financial intelligence information for
COMBATING TRAFFICKING IN HUMAN BEINGS
December 2022



This Operational Alert is developed in co-operation with the Office of the OSCE Special Representative and Co-ordinator for Combating Trafficking in Human Beings



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I. Preface

Trafficking in human beings, exploits vulnerable people, infringes fundamental rights and offends human dignity. It is a modern type of slavery and it constitutes a serious crime.

Human trafficking is often transnational in character and can take several forms, such as, forced labour or services, sexual exploitation, including prostitution, sham marriages, slavery, removal of vital organs, etc. Trafficking affects women, men, girls and boys of all ages. However, the majority of victims, are women and girls who are mainly trafficked for sexual exploitation. For every 10 victims detected globally, five are adult women and two are girls. About one third of the overall detected victims were children, both girls (19 per cent) and boys (15 per cent), while 20 per cent were adult men ¹.



Source: UNODC

Its sole purpose is the economic gain, as this type of crime generates high profits to perpetrators. It is estimated that human trafficking is one of the largest sources of income of organised crime groups. Those ill-gotten profits are then channelled into the financial system.

It is therefore vital to raise awareness among all stakeholders and gatekeepers, so as to prevent criminals from using the financial system for laundering their illegal proceeds.

II. Purpose

This Strategic Analysis Report which is an Operational Alert outlines red flag indicators and typologies to support financial investigators, obliged entities and all stakeholders involved, in identifying potential instances of trafficking in human beings so that the related activity can be reported to the FIU via Suspicious Transaction/Activity Reports (STRs and SARs).

¹ UNODC Global Report on Trafficking in Persons, 2020



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Thus, this report provides guidance to reporting institutions and communication of human trafficking related typologies as well as, financial indicators to improve suspicious transaction reporting related to trafficking in human beings.

STRs / SARs constitute one of the main weapons in the fight against financial crimes, including trafficking in human beings as they generate the initiation of analysis by the FIU and the dissemination of information to Law Enforcement Authorities for investigation and criminal proceedings.

Through STRs/SARs, MOKAS is able to facilitate the detection, prevention and deterrence of all stages of money laundering (placement, layering and integration) and the financing of terrorist activities by providing actionable financial intelligence disclosures to Law Enforcement Agencies.

Additionally, this Strategic Analysis Report is primarily meant for obliged entities such as financial institutions, with a reporting obligation to MOKAS, as well as for Law Enforcement and Supervisory Authorities.



III. Overview of the human trafficking situation in Cyprus

Trafficking in human beings (THB) is a global issue that affects Cyprus like every other country in the world.

Due to its geographical location, Cyprus is the first entry point for many immigrants in Europe and it is therefore a country of destination for victims of human trafficking².

The identified cases of trafficking in human beings relate to sexual exploitation, labour exploitation, forced marriages, begging, adoptions and other criminal activities.

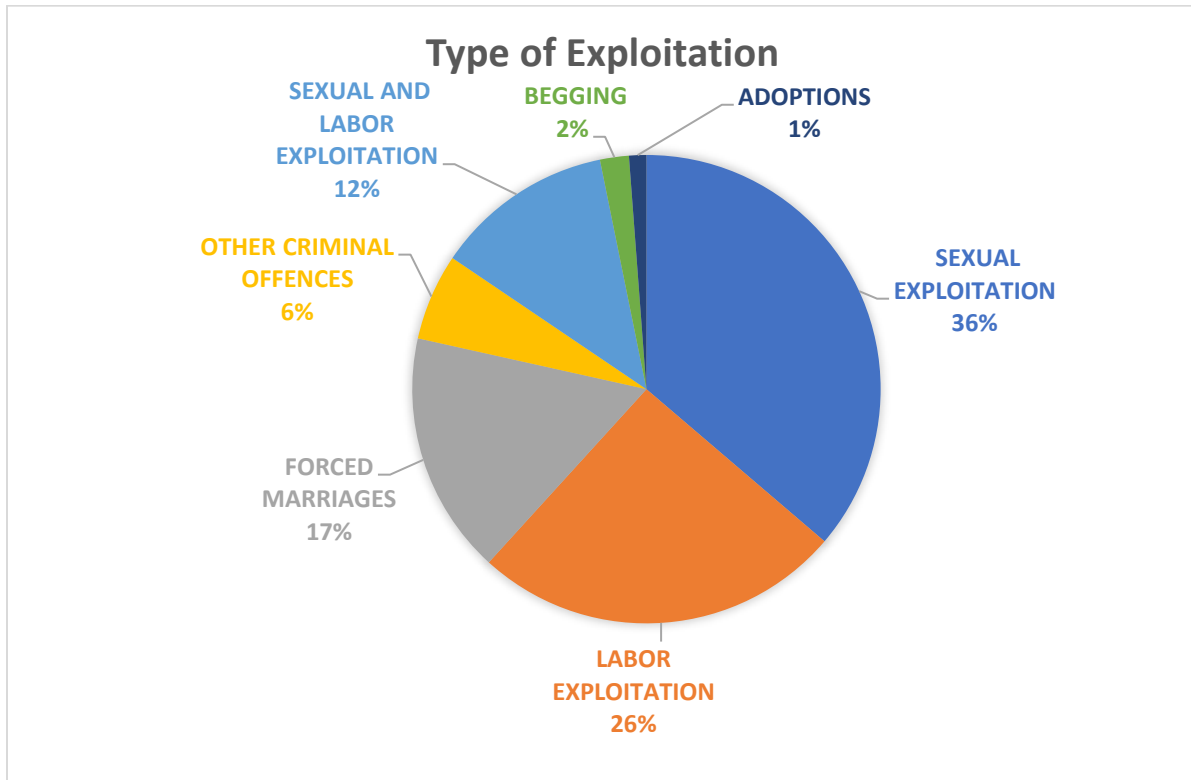
The table below illustrates the number of victims identified between 2015 -2022 (01/01/2022-30/11/2022) and the form of exploitation.

TYPE OF EXPLOITATION	GENDER				TOTAL
	MALE		FEMALE		
	MINOR	ADULTS	MINOR	ADULTS	
THB FOR SEXUAL EXPLOITATION	2		2	87	91
THB FOR LABOUR EXPLOITATION	1	51		12	64
THB FOR COMMITTING CRIMINAL OFFENCES (FORCED MARRIAGES)		3		39	42
THB FOR COMMITTING OTHER CRIMINAL OFFENCES (e.g drugs, robberies)	1	1	3	10	15
THB FOR SEXUAL AND LABOR EXPLOITATION		2		29	31
THB FOR BEGGING	1		3	1	5
THB FOR ADOPTIONS			1	2	3
TOTAL	5	57	9	180	251

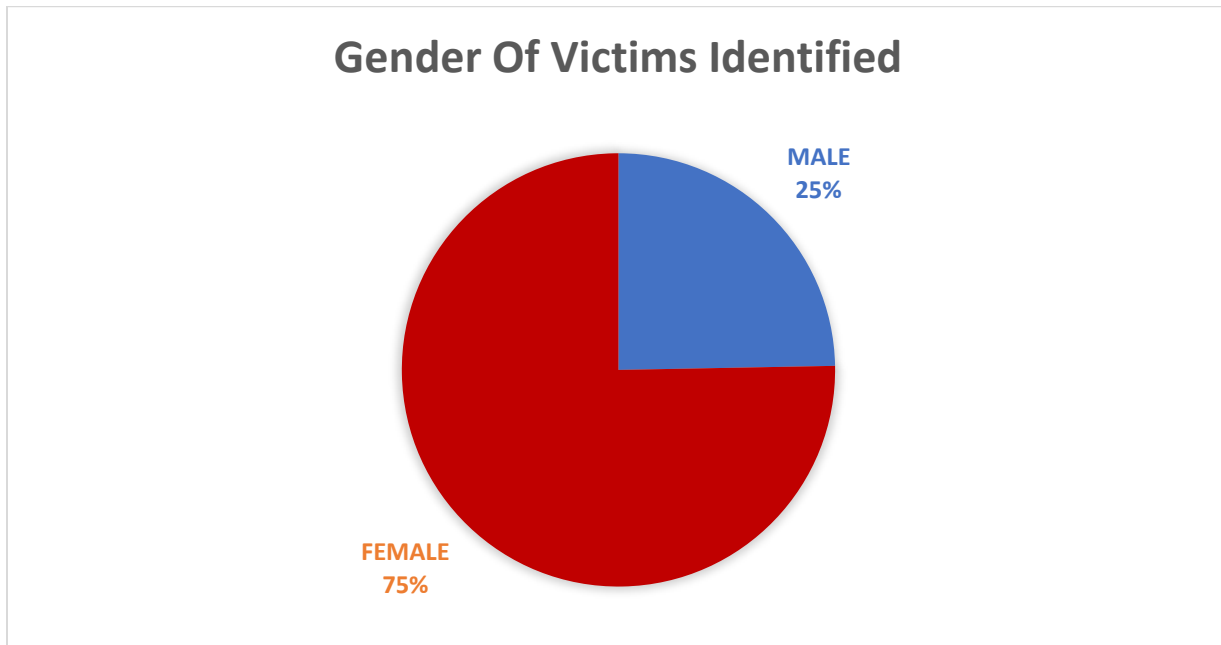
² https://home-affairs.ec.europa.eu/policies/internal-security/organised-crime-and-human-trafficking/together-against-trafficking-human-beings/eucountries/cyprus_en#:~:text=Cyprus%20is%20predominantly%20considered%20to,of%20sexual%20and%20labour%20exploitation



The majority of the identified victims are foreign nationals, with the main countries of origin being Romania, the Russian Federation, Republic of Moldova, India, Bulgaria, Ukraine and Bangladesh.



As shown on the pie chart above, sexual exploitation and labour exploitation constitute the main forms of trafficking in human beings in Cyprus.



As far as the gender of the victims, 75% of the identified victims of trafficking in human beings in Cyprus are women and 25% are men.

During the period from 2015-2022 (01/01/2022-30/11/2022), the main form of exploitation of identified female victims were sexual exploitation and forced marriages, whilst men were mainly trafficked for labor exploitation.

According to the statistics held by the Office of Combating Trafficking in Human Beings of the Cyprus Police, for the period 2015-2021, a total number of 116 investigations were launched into trafficking in human beings by the Office of Combating Trafficking in Human Beings.

Out of these 116 cases, 89 were prosecuted before the Court and in 27 cases a conviction was obtained.

Assessment of risk

Areas that are considered to be of high risk for trafficking in human beings, are the agricultural and livestock sectors, night pubs and private apartments where “massage” services are offered.

According to the first Cyprus National Risk Assessment (NRA) Report on Money Laundering and Terrorist Financing, human trafficking is identified as a crime of medium level threat to money-laundering in Cyprus⁶. According to the NRA, the number of

⁶ Cyprus, National Assessment of Money Laundering and Terrorist Financing Risks, October 2018



identified victims for sexual exploitation decreased slightly in the recent years, but it was observed that prostitution moved to pubs, private flats and massage places where the rate of detection could be lower. Third country nationals previously trafficked to Cyprus for sexual exploitation purposes have been gradually replaced by EU nationals who do not need a visa to enter the country. According to the same Report, other situations may involve trafficking in human beings whereby EU nationals are pressured into “sham marriages” with third country nationals, to enable them to obtain residence and working permits. This type of offences almost always relates to financial gain and there is also an increasing trend on the number of investigated cases which are of transnational nature as far as the victims, as well as the perpetrators are concerned. Furthermore, as per the findings of the NRA, there is a call for increased co-operation between various agencies to effectively evaluate the level of money laundering involved in trafficking and associated underlying offences and to further explore freezing and confiscation possibilities of illegal proceeds generated.

As mentioned above the identified victims who are foreign nationals, have as main countries of origin Romania, the Russian Federation, Republic of Moldova, India, Bulgaria, Ukraine and Bangladesh.

IV. Law Enforcement

The Office of Combating Trafficking in Human Beings of the Police Headquarters was established in 2004, and since March 2015 the Office has been operating on an operational basis. The role, competences and responsibilities of the Office include a wide range of activities to prevent and combat the phenomenon, as well as in the context of the victim-centred approach to the protection, safety and support of victims. The main tasks of the Office are the qualitative investigation of cases of trafficking in human beings in the territory of the Republic of Cyprus, the identification of victims and the coordination of the operational activity of the Police in this field.

Forms of trafficking in human beings which are less widespread today in Cyprus are trafficking for the purpose of:

- Adoptions (by means of an illegal act)
- Begging or forced itinerant sale
- The exploitation of vital organs, tissues and cells
- Committing other criminal acts (minor offences, theft, drug trafficking, etc.)



V. Legislation

The Republic of Cyprus has signed and ratified all International and European Conventions related to trafficking in human beings and has fully transposed into domestic legislation the EU Directive 2011/36/EU on preventing and combating trafficking in human beings and the EU Directive 2004/81/EC. The domestic law in place is Law no. 60(I)/2014 on Prevention and Combating of Trafficking and Exploitation of Persons and the Protection of Victims Law. On 26.7.2019 the amending law 117(I)/2019 came into force. The Law defines trafficking in human beings as follows:

Any person who recruits, employs, transfers, transports, persons, traffics in, conveys, harbours or receives an adult person, or houses or receives, exchanges or transfers control or power over that person, for the purpose of exploitation for the purposes of exploiting in sex industry/prostitution, exploitation at work, and exploitation or sale of human vital organs through:

- (a) threats, and / or
- (b) the use of force or other forms of coercion, and / or
- (c) kidnapping, and / or
- (d) guile or fraud, or deception, and / or
- (e) abuse of power or of a position of vulnerability, such that that person has no real and acceptable alternative but to submit to the abuse, and / or
- (f) giving or receiving payments or benefits to achieve the consent of a person having control over another person, and / or
- (g) administering any drug or other substance in order to drug or neutralize his or her power or resistance, and / or
- (h) fictitious debt

shall be guilty of an offence and, on conviction, be liable to imprisonment not exceeding ten years.

Trafficking of children is punishable with imprisonment not exceeding twenty years.

Under the Legislative Framework, the National Coordinator for Trafficking in Human Beings and the National Referral Mechanism have been established for victims of trafficking.⁹

According to statistics held by the police, for the period 2015-2022 (01/01/2022-30/11/2022), a total number of 126 investigations were launched into trafficking in human

⁹ <https://www.police.gov.cy/police/police.nsf/All/25C9DA36351CBB15C22584000041D66E?OpenDocument>



beings by the Police (Office of Combating Trafficking in Human Beings). Out of these 126 cases, 104 individuals were prosecuted before the Court and 31 convictions were obtained.

Important Note: trafficking in human beings for commercial sexual exploitation can at times be confused for prostitution, which is not criminalized in Cyprus, when investigating financial activity thought to be related to trafficking in human beings. Given this possibility, it is important to note that efforts should be made to differentiate between those willingly involved in the sex industry for their own purposes and those being trafficked, with the latter being the main focus of trafficking in human beings investigations. One main indicator to make this determination is how the funds in the account are utilized. For example, if funds were coming into the account from multiple individuals or via cash and being immediately sent out to a third party this potentially indicate a victim of trafficking in human beings. However, if the funds were being utilized by the owner of the account for day to day living it may be legitimate sex work.¹⁰

Trafficking in human beings vs. Smuggling of Migrants (SOM)

Trafficking in human beings and the smuggling of migrants (SOM) are often incorrectly conflated with one another given the misperception that trafficking requires movement from one place to another. In actuality, trafficking in human beings involves the recruitment of a person by another person for the purpose of exploitation (e.g. labour exploitation, sexual exploitation etc.) whereas SOM involves facilitating illegal entry of a foreign national into a State and is a crime against the State. SOM always involves the movement of an individual across a border while trafficking in human beings may not require physical movement at all.

VI. Trafficking in Human Beings , the Financial Industry and Financial Information/Evidence

Eventhough human trafficking is a widespread and highly profitable crime that generates an estimated \$150 billion worldwide per year with a significant portion of those profits passing through legitimate financial services businesses¹¹ it is nevertheless a crime with low levels of detectability.

The financial sector has many connections with THB: Considering that THB is a very profitable business, the financial sector may handle the profits of such crimes on behalf of its customers, businesses may rely on slavery for cost reductions and increased profits.

¹⁰ <https://prostitution.procon.org/countries-and-their-prostitution-policies/#cyprus>

¹¹ <https://www.state.gov/the-role-of-the-financial-sector-promising-practices-in-the-eradication-of-trafficking-in-persons/>



Thus, given that trafficking in human beings is largely a financially incentivized crime which generates huge profits, one can easily see the risks posed to financial institutions by traffickers, whether to facilitate the crime itself or launder the ill-gotten gains.

It is widely recognised that one of the most effective ways to identify potential cases of THB and the criminal networks behind them is to follow the financial trail the traffickers leave behind.

Investigations into the financial aspects of human trafficking are essential in the fight against this crime for a number of reasons. First, the evidence from the financial sector can help the Law Enforcement and prosecutors to build successful and effective investigations and prosecution without solely relying on the victim's testimony. Financial evidence can help identify victims and alert authorities to trafficking in human beings even before a victim files a complaint or it can confirm a victim's testimony and provide additional information about the extent of the criminal activity. Second, financial seizures of proceeds of trafficking can be redirected to the victims as a remedy and support their rehabilitation. Third, financial evidence can lead to a preventative function. Integrating financial investigations into anti-trafficking systems can help combat impunity for traffickers and increase the perception of risk for criminal actors. Finally, addressing the financial implication of human trafficking can help building partnership between actors of the private and public sector.¹²

Finally, confiscating such illegal proceeds, not only constitutes a punishment for the perpetrators who are deprived of their ill-gotten gains, but also reduces further financing of such crimes, thus contributing to the reduction of the occurrence of such offences.

VII. Suspicious Activity Reports and Suspicious transaction Reports (SARs and STRs) submitted to Cyprus FIU by Obligated Entities

Traffickers are known to leverage their victim's bank accounts to conduct illicit activity while preserving their anonymity and to exploit their financial profiles for personal gain.

Analysing potential victim or traffickers bank accounts transactional activity, could lead to important intelligence on the trafficker or trafficking operation being identified and reported to MOKAS.

However, it is important to note that a differentiation between alleged victim and trafficker should be made when possible and accompanying investigations be cognizant of this difference.

¹² [Following the Money: Compendium of Resources and Step-by-step Guide to Financial Investigations Into Trafficking in Human Beings | OSCE](#)



From 2015 until 2022, a number of SARs/STRs related to trafficking in human beings, were submitted to the FIU. The suspicion of possible connection to trafficking in human beings was either mentioned in the narrative or emanated as a result of the analysis contacted by the FIU.

After the conclusion of the analysis, where deemed appropriate, disseminations to the Police were made, either for investigation or for intelligence purposes.

Additionally, relevant intelligence was shared with counterpart FIUs in the context of Spontaneous Disclosures and FIU requests.

VIII. Financial Red Flag Indicators and Typologies

Red flag financial indicators and typologies should be considered as holistically inclusive of other relevant intelligence or data available. This is important because a single transaction taken in isolation may lead to a false assumption of normalcy. Considering all indicators may reveal otherwise unknown links that taken together could lead to reasonable grounds to suspect that the transaction consists of proceeds from human trafficking.

Red Flag Indicators and Typologies

High Risk Industries, Business Types and Occupations

- Livestock sector;
- Agriculture;
- Night pubs / Bars;
- Massage parlours;
- Recruiting/Staffing agencies;
- Escort services;

Transactional Red Flags

- Corporate accounts that do not exhibit normal payroll expenditures (e.g. salaries, payroll taxes, social security contributions). Payroll costs can be non-existent or extremely low for the size of the customer's operations, workforce and/or line of business;
- Payroll irregularities – the same wages being paid to all staff regardless of role or length of shift
- Employee salaries being paid in to a shared bank account



- Any information that arises suggesting unacceptable behavior towards an employee
- Cash deposits/withdrawals without economic rationale;
- Cash deposits or wire transfers are kept below regulatory thresholds in apparent efforts to avoid record keeping requirements
- Limited payments related to living expenses made by victims (supermarkets, clothing shops, telecommunication company);
- Limited payments to social insurance by victims;
- Transactions within hotels or resorts within Cyprus;
- Use of escort/ dating websites
- Incoming or outgoing payments to unknown/seemingly unrelated third parties;
- Outgoing payments from male third country nationals to young females (EU nationals)
- Outgoing wire transfers, with no business rationale, directed to countries at higher risk for human trafficking or to countries that are inconsistent with the customer's expected activity.
- Transactions conducted by individuals (victims of trafficking in human beings), while escorted by a third party. Such transactions could be carried out following instructions by third parties and the money - withdrawn in cash – is handed over to the third party
- Individuals opening bank accounts escorted by a third party, while the third party escorting the individual is doing all the communication with the bank and he/she may even hold the customer's identification documents.
- Employers have power of attorney on bank accounts of their employees, foreigners residing in Cyprus as workers, students etc
- Persons involved in human trafficking, usually use the services of Money Service Businesses;
- Transactions with multiple jurisdictions, high-risk jurisdictions and/or with the victims' countries of origin;
- Transactions with multiple jurisdictions with no reasonable justification;
- Transactions with multiple counterparts; No established relationship identified among counterparties
- Excessive Activity in terms of frequency and amount with no reasonable explanation;
- Transfers from several persons to one common receiver, with whom they appear to have no apparent relationship.



IX. Sanitized Examples of Suspicious Activity/Transaction Reports (SARs/STRs) submitted to the FIU

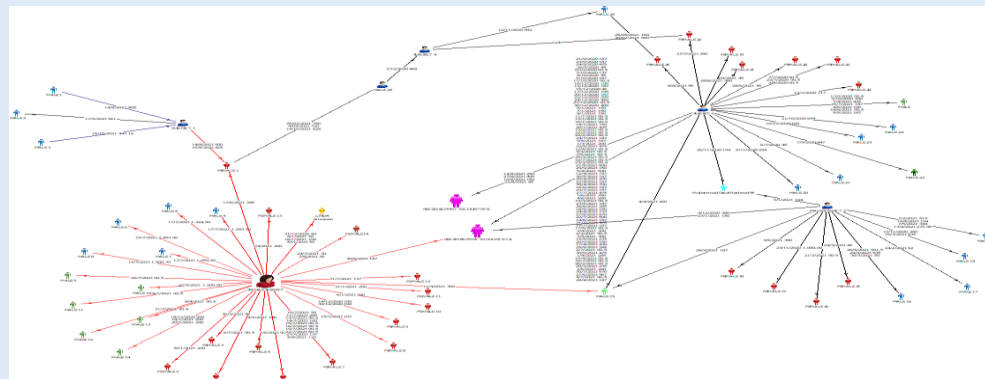
1st Case – Possible forced marriages and trafficking in human beings

FIU Cyprus, received 5 Reports from Money Service Businesses, regarding foreigners from third countries residing in Cyprus.

The suspicions were based on the transactional behavior of the persons mentioned and are summarized to the following red flags:

- the frequency of transactions deemed to be higher than usual
- sending money to various recipients without obvious purpose
- unknown relationship between the counterparties
- no economic rational

At first, the reports did not seem to be related, but from the analysis carried out by the Unit, connections on a transactional level emerged.



Common feature in all cases was the transferring of money to people of different nationalities in a specific European country without any obvious financial purpose, as well as the fact that all third-country nationals residing in Cyprus were married to European nationals.

The Unit obtained information that one of the subjects involved might have been involved in human trafficking.

In addition, information emerged that one of the young European women, who was married to a foreigner from a third country, was seen visiting a Money Business Service accompanied by two unknown men. When she signed the papers, the unknown men took the money. This reinforced the suspicions that she might have been a victim of human trafficking.

In conclusion, the transactional behavior, together with the additional information collected during the analysis of the Reports, raised suspicions of sham marriages, without ruling out the possibility that the women involved may be victims of human trafficking and / or exploitation.

For this reason, the Unit's findings were forwarded to the Cyprus Police.



2nd Case - Possible forced marriages and trafficking in human beings

The Unit received 7 STRs which were connected through the transactional analysis performed by the Unit.

3 of the STRs, were in relation to a young female from a specific EU country. The individual was in some cases the main subject of the report, and in others was mentioned as a counterparty. The occupation declared was Hotel – Restaurant – Leisure. The subject was using different identification documents and was providing different DOBs.

The individual transacted from several EU countries.

Red flags

- Sending funds to high-risk jurisdictions;
- Sending intra country transactions;
- Sending funds to multiple jurisdictions;
- Sending funds to multiple receivers;
- No established relationship identified among counterparties
- No indication of legitimate reasons for transactions;
- Transactions in consecutive days
- Activity was excessive in terms of frequency and amount.

The other 4 STRs were submitted in relation to foreign males, third country nationals, residing in the Republic. 3 out of the 4 males were illegal immigrants and the fourth had entered the Republic in 2016 as a student and in 2021 his residence permit changed to “*family members of European Union citizens that are not European Union citizens*”. From further enquiries it was established that he was married to a Romanian national.

All subjects were sending funds to the same counterparties in a specific EU country, mainly young women. The transactional behaviour and the patterns identified raised suspicions of sham marriages, without ruling out the possibility that the women involved may be victims of human trafficking and / or exploitation.

The Unit's findings were forwarded to the Cyprus Police for criminal investigation purposes.



X. Outcome

Guidance to Reporting Entities

1. TRAFFICKING IN HUMAN BEINGS REPORT INDICATOR

As a result of this project, a new report indicator - trafficking in human beings - will be added to the GoAML and Reporting Entities will be urged to use it when submitting a report to the FIU.

2. TIMELY SUBMISSION OF STRs/SARs TO THE FIU

A STR/SAR must be made “as soon as is practicable” after the knowledge or suspicion arises or at the earliest opportunity thereafter. The facts regarding what is suspected and why must be clearly explained so that it can be understood without professional or specialist knowledge.

The timing of reporting in such cases is of extreme importance, having in mind the nature of such offences. The earlier such activities are identified, the soonest such crimes involving massive human rights violations will be interrupted and further human rights violations will be prevented.

3. INCLUSION OF KEY WORDS IN THE NARRATIVE

Reporting Entities are advised to include in the narrative of the suspicion key words, such as “**Human Trafficking**” and “**Trafficking in Human Beings**” when submitting reports relevant to trafficking in human beings.

Financial institutions should also include as much relevant and detailed information as permissible to aid the analysis process of the FIU.

4. EDUCATION AND TRAINING

First line employees of Money Service Businesses and Financial Institutions should receive adequate training to be able to detect unusual behaviors.

FIU actions

1. PRIORITAZATION & DISSEMINATION

Priority is given to the analysis of trafficking in human beings cases, so that the result of the analysis is promptly disseminated to the Cyprus Police in an effort to disrupt the criminal activity and deprive criminals from their ill-gotten proceeds.



2. STRENGTHENING COOPERATION

Exchange of information with relevant public and private sector stakeholders and global partners including counterpart FIUs

3. EDUCATION AND TRAINING

Improving FIU operational awareness and capability in identifying financial flows relating to human trafficking that can aid in the detection of traffickers and victims.

4. ASSET RECOVERY

Increasing the number of freezing orders of THB proceeds from the early stages of investigation to enable the issuance by the court of final confiscation orders following criminal proceedings. Depriving such criminals of their illicit profits, not only operates as a punishment but also it stops the fuelling of further criminality effectively preventive further violation of human rights of the victims of trafficking.

Additional Resources

[OSCE Following the Money Compendium of Resources and Step-by-Step Guide to Financial Investigations Related to Trafficking in Human Beings](#)