

Compliance

The EDD Reality Check: Navigating Higher-Risk Clients the Right Way

“Enhanced due diligence” (EDD) is a familiar feature across Cyprus’s regulated landscape from banks and EMIs to law firms, accountants and corporate service providers. Yet it remains surrounded by a sense of burden and apprehension. Many still view EDD as a disruptive, documentation-heavy exercise that activates only when risk appears to be spiralling. EDD is not an escalation mechanism but a practical, risk-based tool that helps institutions understand their clients with clarity rather than suspicion. When implemented correctly, it replaces uncertainty with structure and turns perceived regulatory weight into a framework that supports confident, defensible decision-making.

EDD is fundamentally about depth, not volume. The AML Law and the Central Bank of Cyprus Directive make clear that its purpose is to produce a coherent picture of the customer, the beneficial owners, the business relationship and the associated risks, not simply to collect additional paperwork. This begins with ownership and control. Regulated institutions are expected to map the client’s structure with enough granularity to identify beneficial owners, intermediate entities and any features that obscure genuine control. Public registries, corporate filings, open-source research and reliable databases all play a role in constructing this picture.

A second core element is clarity on the nature and purpose of the relationship. For higher-risk clients, institutions should be able to articulate which products or services will be used, the expected transactional or operational profile, relevant jurisdictions and counterparties and the underlying commercial rationale. Contracts, invoices, financial statements, business plans or similar documents anchor this understanding in verifiable facts, creating a benchmark against which future activity or behaviour can be measured.

EDD also requires establishing the source of funds and source of wealth of customers and beneficial owners. This is particularly important for PEPs and other higher-risk relationships. Evidence may include tax returns, audited accounts, sale agreements, dividend records or inheritance documentation, with the intensity of verification adjusted to the level of inherent and residual risk.

There is also a transactional or activity-based dimension. When a pattern appears unusually large, complex or inconsistent with the expected profile, EDD requires the institution to understand and document the rationale. Where no reasonable lawful explanation can be identified, the obligation to consider reporting to MOKAS (Unit for Combatting Money Laundering and Financial Intelligence Unit of Cyprus) arises, together with a reassessment of the overall relationship.



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Higher-risk engagements also demand senior management involvement, both at onboarding and during the lifecycle of the relationship. This ensures that acceptance, continuation or modification of such relationships aligns with institutional governance, risk appetite and regulatory expectations.

Finally, EDD is not a point-in-time exercise. Enhanced monitoring, frequent reviews, alert thresholds and documented escalation procedures form part of its ongoing character. Many institutions supplement methods with data analytics capable of detecting emerging patterns or deviations in real time.

EDD is sometimes dismissed as a regulatory formality. In practice, it is a central governance tool for all regulated professional and financial institutions. A well-constructed EDD file demonstrates how a relationship was assessed, what information supported the assessment, and how it has been monitored over time. For external counsel and in-house legal teams, aligning legal and operational realities is essential to make EDD genuinely workable.

As Cyprus continues converging with EU standards, EDD must be treated not as a one-off compliance hurdle but as an ongoing discipline, one that strengthens institutional decision-making and supports the jurisdiction’s reputation for credible, risk-sensitive regulation.



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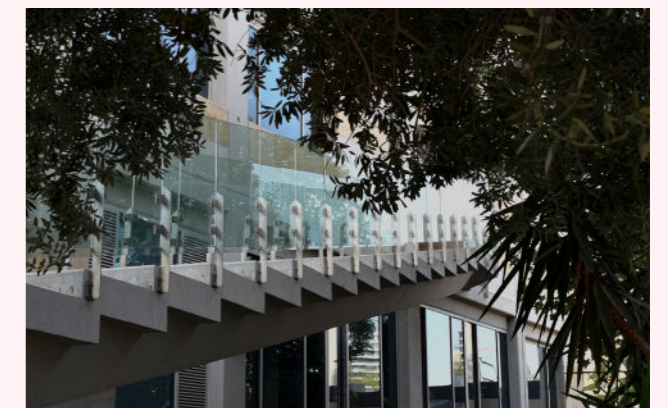
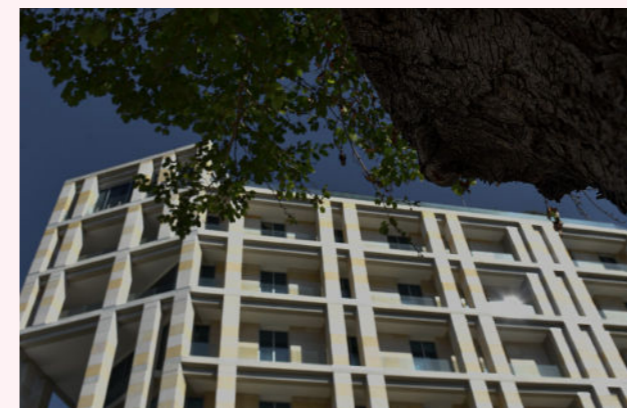
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