

Cyprus Investment Firms

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ROYAL PINE

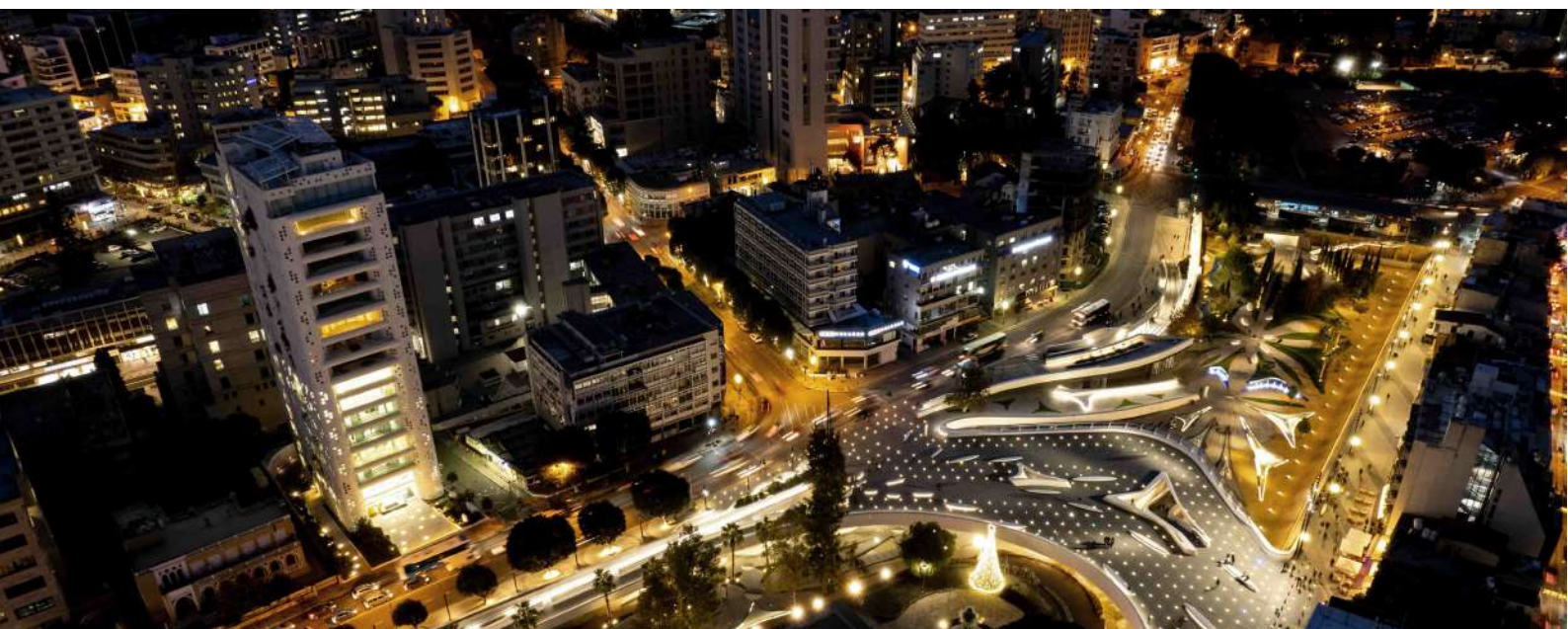
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Cyprus Investment Frms

Introduction

The provision of investment services and activities and ancillary services in Cyprus is governed by L. 87(I)/2017 regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets, as amended, (Law) and is supervised by the Cyprus Securities and Exchange Commission (**Commission**).

The Law incorporates the provisions of the Directive 2014/65/EU on markets in financial instruments (**MiFID**), which provides harmonized regulation for investment services across the member states of the European Economic Area.



Why Cyprus

A Cyprus investment firm (**CIF**) is taxed as any other company established under the laws of Cyprus and as such any taxable profit generated by a CIF as a result of the provision of investment and ancillary services and exercise of investment activities is subject to a 12.5% corporate tax. At the same time, none of the below are considered taxable income:

- Profits from the sale of securities;
- Gains relating to foreign exchange differences (forex) (that are not arising from trading of related derivatives and currencies);
- Dividends received (in most cases);
- Interest income (that is not arising from the ordinary type of business);
- Profits of a permanent establishment under certain criteria.

Understanding the Facts

The Law defines a CIF as a company established in Cyprus and authorized by the Commission to provide one or more investment and ancillary services to third parties and/or perform one or more investment activities.

Investment Services and Activities

The investment services and activities which are regulated by the Law are the following:

1. Reception and transmission of orders in relation to one or more financial instruments;
2. Execution of orders on behalf of clients;
3. Dealing on own account;
4. Portfolio management
5. Provision of investment advice;
6. Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
7. Placing of financial instruments without a firm commitment basis;
8. Operation of Multilateral Trading Facility (MTF);
9. Operation of Organized Trading Facility (OTF).

A CIF must apply for at least one of the above investment services/activities.



Ancillary Services

The CIF may also offer a range of the below non-core activities:

1. Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management and excluding maintaining securities accounts at the top tier level;
2. Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
3. Provision of advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and purchase of undertakings;
4. Foreign exchange services where these are connected to the provision of investment services;
5. Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments;
6. Services related to underwriting;
7. Investment services and activities as well as ancillary services related to the underlying of the derivatives included under points 5, 6, 7 and 10 of the below section (Financial Instruments) where these are connected to the provision of investment or ancillary services.

A CIF authorisation cannot be granted solely for the provision of ancillary services.

Financial Instruments

The above investment services and activities and ancillary services are provided in relation to

the following financial instruments:

1. Transferable securities;
2. Money-market instruments;
3. Units in collective investment undertakings;
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
5. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of a default or other termination event;
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that can be physically settled not otherwise mentioned in paragraph 6 and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for differences;
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this list, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;
11. Emission allowances consisting of any units recognized for compliance with the requirements of Directive 2003/87/EC.

Conditions for the Granting of a CIF Authorisation

Adequate Initial Capital

The minimum initial capital of a CIF depends on its activities, as follows:

Investment Service	Share Capital (EUR)
Reception and transmission of orders *	125,000
Execution of orders*	125,000
Portfolio management *	125,000
Provision of investment advice *	125,000
Dealing on own account	730,000
Underwriting or placing of financial instruments on a firm commitment basis	730,000
Placing of financial instruments without a firm commitment basis	730,000
Operation of a Multilateral Trading Facility	730,000

At the final stage of assessment of the application for the granting of CIF authorisation, the CIF is required to submit a confirmation that it possesses the entire initial capital required under the Law and that it has blocked this amount in a bank account. The initial capital must remain blocked until the CIF authorisation is granted.

Suitable Shareholders

The shareholders possessing a qualifying holding, whether direct or indirect, must be fit to ensure the sound and prudent management of the CIF.

Suitable Persons who Effectively Direct the Business

The board of directors of a CIF must consist of at least:

- (a) Two executive members; and
- (b) Two independent non-executive members.

The majority of the members of the board of directors of the CIF must be residents of Cyprus and all members must be of sufficiently good reputation and possess sufficient knowledge, skills and experience to perform their duties.

The management of a CIF must be undertaken by at least two persons (four-eye principle), who can be the executive members of its board of directors and must reside in Cyprus.



Head Offices in Cyprus

Every CIF's head office must be situated in the Republic. The head offices must be fully staffed and specifically, all members of the staff are required to exercise their duties from the CIF's head offices, unless they are members of the staff of the CIF's branch that operates outside Cyprus.

The following members of the staff of the CIF must exercise their duties from the CIF's head offices:

- (a) At least two members of the management;

- (b) Compliance Officer;
- (c) Internal Auditor;
- (d) Risk Management Officer;
- (e) Financial Controller – Accountant;
- (f) Back Office Officer.

Member of the Investor Compensation Fund

All CIFs are required to participate to the Investor Compensation Fund and pay an initial and annual contribution, which vary depending on the investment services which the CIF is entitled to provide (initial contribution) and are determined on the basis of the funds and financial instruments of the CIF's clients (ordinary annual contribution). A CIF providing investment services without holding client's assets and/or clients' financial instruments is exempted from the obligation to pay the initial and annual contribution.

Adequate Organisational Procedures

A CIF must comply with the organizational requirements laid down in the Law. Specifically, a CIF must:

- (a) Establish adequate policies and procedures to ensure its compliance with its obligations under the Law and relevant directives;
- (b) Maintain effective organisational and administrative arrangements with a view to taking all reasonable steps designed to prevent conflicts of interest from adversely affecting the interests of its clients;
- (c) Take reasonable steps to ensure continuity and regularity in the performance of investment and ancillary services and activities, by employing appropriate and proportionate systems, resources and procedures;
- (d) Ensure, when relying on a third party for the performance of investment services or activities or operational functions which are critical for the provision of continuous and satisfactory service to clients and the performance of investment activities on a continuous and satisfactory basis, that it takes reasonable steps to avoid undue additional operational risk. Outsourcing of the above must not be undertaken in such a way as to materially impair the quality of its internal control and the ability of the Commission to monitor the CIF's compliance with all its obligations. In some circumstances, the Commission's prior consent must be sought;
- (e) Have robust governance arrangements which include a clear organisational structure with well defined, transparent and consistent lines of responsibility;
- (f) Have sound administrative and accounting procedures, internal control mechanisms, effective procedures for assessing the risks the CIF undertakes and adequate control mechanisms, including sound remuneration policies and practices that are consistent with sound and effective risk management, and adequate safeguard arrangements for information processing;
- (g) Arrange for records to be kept of all services provided and transactions undertaken by it (including telephone conversations and electronic communications), which shall be sufficient to enable the Commission to monitor compliance with the requirements of the Law;
- (h) Apply appropriate client identification procedures, record maintenance and internal reporting for the prevention of money laundering and terrorism financing;
- (i) When holding financial instruments belonging to clients, make adequate arrangements so as to safeguard clients' ownership rights, especially in the event of the CIF's insolvency, and prevent the use of a client's instruments on own account except with the client's express consent;

- (j) When holding funds belonging to clients, make adequate arrangements to safeguard the clients' rights and, except in the case of credit institutions, prevent the use of client funds for its own account;
- (k) A CIF shall not conclude title transfer financial collateral arrangements with retail clients for the purpose of securing or covering present or future, actual or contingent or prospective obligations of clients.

Obtaining a CIF Authorisation

Upon submission of a duly completed application for the granting of a CIF authorisation, the Commission must reach a decision and inform the applicant for the granting of authorisation or the rejection of the application within six months from the submission. Applications for authorisation can be examined under the "fast track" examination scheme following payment of EUR 25,000.

Conclusion

Royal Pine has experience in the investment services field and may assist you by:

- Drafting the Memorandum and Articles of Association of the CIF;
- Preparing the application for the granting of a CIF authorisation, including the drafting all documents supporting the application (including the CIF's business plan and policies and procedures manuals);
- Liaising with the Commission;
- Providing non-executive directors and compliance support services;
- Provision of internal audit services;
- Consulting on recruitment of CIF officers and staff;
- Providing post-licensing assistance in relation to the CIF's ongoing obligations.



* This publication has been prepared as a general guide and for information purposes only. It does not purport to be comprehensive or to render professional advice. Before making any decision or taking any action that may affect you and/or your business, bespoke advice should be obtained.

About

Royal Pine is a boutique advisory firm offering a comprehensive spectrum of solution-based products addressing the needs of Corporate clients, Private clients or their family offices and Regulated institutions on areas of investments, financial, tax, legal and corporate matters.

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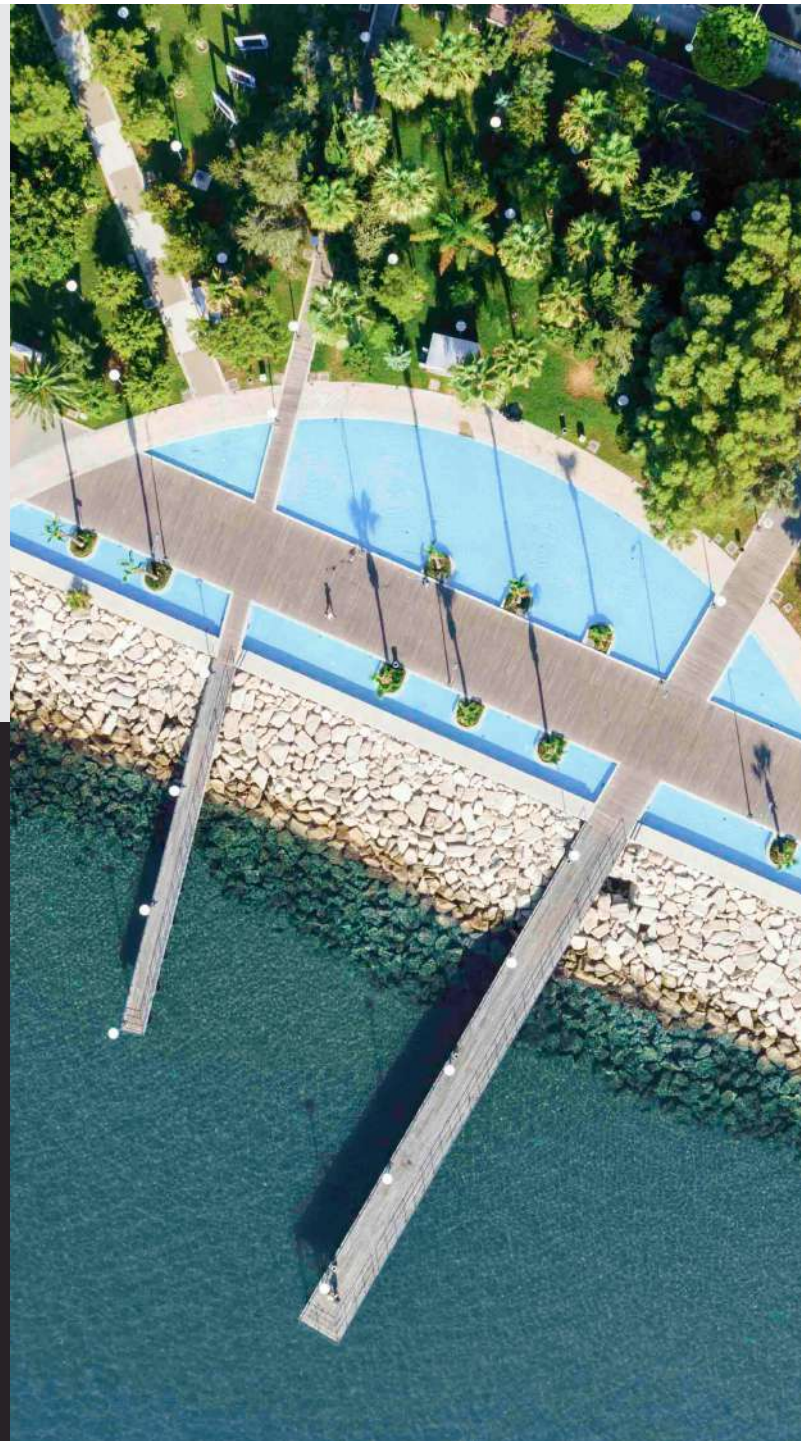
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