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## Cyprus Investment Firms (CIFs)

Since its entry in the EU in 2014, Cyprus has managed to attract a plethora of CIFs which have set up and operate efficiently from the island.

Indicatively, the Cyprus Securities Exchange Commission (CySEC) licensed nearly 170 CIFs to date. Of them, 28 were granted licence in 2013 and 22 so far in 2014.

A large number of them have “passport” their services across other EU Member States and a significant number of non-Cyprus based EU CIFs have applied to offer services in Cyprus under the “passporting regime”.

This signifies a continuous interest in setting up and operating CIFs from Cyprus as it offers an attractive tax regime,

efficient and flexible regulating authority, pool of knowledgeable professionals and competitive costs. The adoption in Cyprus of the EU Directives (including recent AIFM and AIF Directives) allows CIFs access to the EU financial markets through “European passporting”.

There are many reasons why accessing the European Securities Markets is becoming increasingly attractive. European exchanges in recent years compare favourably with those in the United States in both IPO volume and value terms. Other than providing liquidity and access to a diverse pool of investors, European listings provide companies with the appropriate status for further European and international expansion.

## Legal Framework

The Cyprus Investment Services and Activities and Regulated Markets of 2007 to 2012 (Law 144(I)/2007), (the "Law") as amended, provides the legal framework for the provision of investment services as well as for the registration, regulation of operations and supervision of Cyprus Investment Firms (CIFs). The Law also incorporates the provisions of MiFID (Market in Financial Instruments Directive 2004/39/EC), the Directive that harmonises regulation of investment services across EU Member States.

Under the provision of the Law, the following entities may provide investment services on a professional basis:

- **CIF:** investment firms in Cyprus, excluding credit institutions, provided that the CIF has obtained the appropriate authorization from the CySEC
- **credit institutions established in Cyprus:** provided that the credit institutions have received an authorization from the Central Bank of Cyprus (CBC) in accordance with the provisions of the Banking Acts 1997 to 2000 for the provision of investment and ancillary services
- **investment firms with their registered offices outside Cyprus:** whether rendering investment or ancillary services through a branch or operating on a cross border basis without a branch, provided they have been granted a licence from the regulators of an EU Member State

## Investment Services

Investment services include any of the following services:

- 1 Reception and transmission of orders in relation to one or more financial instruments
- 2 Execution of orders on behalf of clients
- 3 Dealing in financial instruments for own account
- 4 Managing of individual portfolios under discretionary management
- 5 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)

## Ancillary Services

- 1 Safekeeping and administration of financial instruments for the account of clients
- 2 Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments
- 3 Advice to undertakings on capital structure, industrial strategy and related matters
- 4 Foreign exchange services where these are connected to the provision of investment services
- 5 Investment research and financial analysis
- 6 Services related to underwriting
- 7 Investment services and activities as well as ancillary services where these are connected to the provision of investment or ancillary services

A CIF authorization cannot be granted for the provision of ancillary services alone.

## Minimum Capital Requirements

An initial capital of at least €200.000 is required if a CIF provides one or more of the following investment services and holds clients' money and/or clients' financial instruments:

- reception and transmission of orders in relation to financial instruments \* (*Note 1*)
- execution of orders on behalf of clients
- portfolio management
- provision of investment advice \* (*Note 1*)

*\*Note 1:* A CIF that provides investment services as stated above but does not hold clients' money and/or clients' financial instruments, and which for that reason may not at any time place themselves in debt with their clients, may have an initial capital of:

- €80.000, or
- €40.000 and professional indemnity insurance covering EU Member States or some other comparable guarantee against liability arising from professional negligence, that it enters into with an insurance undertaking representing an amount of at least €1.000.000 per claim and in aggregate at least €1.500.000 per year for all claims

An initial capital of at least €1.000.000 is required if the CIF provides one or more of the following investment services and/or performs the following investment activities:

- dealing on own account
- underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
- placing of financial instruments without a firm commitment basis
- operation of Multilateral Trading Facility (MTF)

In summary the minimum initial capital required is as shown in the following table:

Investment Services	Share Capital (EUR)
Reception and transmission of orders	200.000 *
Execution of orders	200.000
Portfolio management	200.000
Provision of investment advice	200.000 *
Dealing own account	1.000.000
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	1.000.000
Placing of financial instruments without a firm commitment basis	1.000.000
Operation of a Multilateral Trading Facility (MTF)	1.000.000

*\*The figures can be reduced to €80.000 if the CIF offers such services but does not hold clients' money and/or clients' financial instruments. Or the CIF can elect to have initial capital of €40.000 along with professional indemnity insurance as per Note 1 above.*

## Organisational Structure

A CIF is required to maintain the following:

### Board of Directors

The Board shall consist of at least two executive directors and two independent non executive directors who are persons of reputation, experience and can assist the company to achieve its goals. The majority must reside in Cyprus.

### General Manager and/or Managing Director

The management of the CIF will be carried out by at least two persons (chief executive and managing director) who should be of good repute and possess sufficient experience. The MD must be full time and have an excellent, in depth knowledge of activities and be resident of Cyprus. He/she can be also one of the executive directors

### Employees

Employees of the CIF shall be full time and exclusively employed at the CIF. The CIF shall operate independently from any other businesses of the group to which it belongs. Persons employed by a CIF and who provide investment services must hold certificates of professional competency and be registered in the public register maintained by CySEC.

### Procedure for Licensing

The business objective of a CIF should be the provision of those investment and ancillary investment services for which it has received a licence.

A CIF must be licensed by CySEC the regulatory and supervisory authority. In this respect, a written application to CySEC must be submitted and accompanied by the following documents:

- a business plan to include a description of the operations, the organizational structure, forecasts for the first two financial years and the names of at least two experienced and reliable persons who shall run the business
- draft Memorandum and Articles of Association expected to be formulated after the granting of the CIF authorization
- excerpt of the criminal record, certificates of non-bankruptcy and resumes of the members of the board of directors, the executives and shareholders possessing a qualifying holding, as well as their answers to a questionnaire issued by CySEC
- draft internal regulations (Operations Manual) depending on the investment and ancillary services which the company proposes to provide
- description of the applicant's computer network and electronic infrastructure
- draft regulation in accordance with acceptable practices for the prevention of the legalization of the proceeds of criminal activities

CySEC reserves the right to request the submission, together with the application, of any additional documents not listed above.

If the shareholders possessing a qualified holding in the applicant company (10 percent or more) are legal entities, then CySEC will also require the details for all natural persons who are the ultimate beneficial shareholders.

CySEC will reach a decision within 4 months following the submission of the application. During this period CySEC may request additional information or clarifications regarding the application submitted.

CySEC must be satisfied with the paperwork submitted including:

- content of manuals
- due diligence information provided for legal and physical shareholders and personnel
- sufficiency in quantity and quality of the staff to be employed

### **Application Fee**

Application fee for authorization is €3.000 plus an additional fee per investment service as defined in the law as below:

- €1.000 per service for investment services numbered 1, 5 and 7
- €1.500 per service for investment services 2 and 4
- €2.000 per service for investment services 3 and 6
- €10.000 per service for investment services 8
- €500 per each ancillary service

## **Practical Criteria and Requirements**

In general, in order to grant a CIF authorisation, CySEC must be satisfied that the applicant company has and maintains throughout its operation:

- the minimum capital required under the Law
- shareholders possessing a qualifying holding or that are otherwise capable of exercising influence over the management and business strategy, must be fit to ensure the sound and prudent running of the company
- two experienced and reliable persons to manage its business, and that the said persons are capable of fulfilling their duties. One of the two executives should be employed by the company on a full time basis and reside in Cyprus. They should both be accessible and available to appear before the Commission within reasonable notice
- adequate technical and financial resources
- appropriate control and safeguarding arrangements for electronic data processing and adequate internal control mechanisms
- reliability, experience, professional skill and professional diligence of the persons who direct its business
- adequate structure and mechanism to guarantee the protection of investors' assets and eliminate any conflict of interest that may arise between the company or the staff and clients' interests
- full fledged office with established telecommunications and PC networks, staffed with employees on a full time/part time basis as described in the applicant's organizational chart
- heads of the core services departments must possess relevant professional competence certificates from the Ministry of Finance. A CIF has a 12 month period subsequent to the issue of the license to comply with this requirement



## Tax Advantages

CIFs are subject to tax in an identical manner as any other Cyprus entity. In short, what is especially significant from a tax perspective are the following:

- corporation tax rate of 12,5 percent
- no tax on disposal of titles whereby titles are defined as shares, bonds, debentures, founder and other titles of companies or legal persons and rights thereon
- participation exemption system on dividends/profits from abroad
- no withholding taxes on payments of dividends, interest and – in most cases – on royalties paid to non residents
- no holding period requirements for the participation exemption on dividends or for the exemption of tax on the disposal of titles
- absence of withholding taxes of interest payments made abroad
- absence of withholding taxes on dividend payments from Cyprus
- no thin capitalization rules
- favourable network of tax treaties with nearly 50 countries

## Other Advantages

- EU member state, compliant with EU Laws and Directives
- a public company in Cyprus can list easily on any stock exchange within the EU and benefit from “Single EU Passport” access to European Securities Markets
- can be used as a springboard for access and easy setting up in prestigious financial markets within the EU (“Single EU Passport”)
- licensing in Cyprus and the existence of a regulatory framework improves transparency and legitimacy with regard to shareholders and others
- legislation has been put in place and is constantly under review to regulate and harmonize operations in the financial services sector
- facilitation of operations of brokerage firms and enhanced prestige on the international markets
- recognition as a mature financial centre with developed infrastructure
- pool of highly educated and qualified professionals who can advise clients and provide expert support





### What We Do For CIFs

We are leaders in Cyprus in this sector and assist clients to obtain CIF authorization, including the following:

- the preparation and the on going administration of the application for obtaining the CIF authorization as promoter of the CIF
- the design and implementation of an appropriate corporate and organizational structure
- the preparation of the internal operations manual placing emphasis on the appropriate control mechanism that should be in place
- the preparation of Internal Audit Manual, Risk Management and Anti Money Laundering Procedures, business plan and organization structure
- the outsourcing or assistance with selected non-core functions of the company (accounting, internal audit, IT etc)
- the assistance in the selection of the appropriate software
- the provision of tax, accounting and advisory services

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