



Financial Services Companies in Cyprus

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The legislation which deals with the provision of investment and ancillary services is the Investment Services and Activities and Regulated Markets Law of 2007 - Law 114(I)/2007 (the "Law"), as amended from time to time. The Law regulates the provision of investment and ancillary services.

FINANCIAL SERVICES COMPANIES

The types of company that may provide financial services are:

- * Cypriot financial services companies.
- * E.U Financial Services companies, as provided for in the Law.
- * Financial Services Companies of third countries, as provided for in the Law.
- * Banks, as provided for in the Law.
- * Co-operative Credit institutions, as provided for in the Law.

WHY INCORPORATE A FINANCIAL SERVICES COMPANY IN CYPRUS?

The main reason for incorporating a financial services company in Cyprus is the number of tax advantages offered by the Cypriot legal tax regime. These benefits are as follows:

- * The corporate tax rate of 10% is possibly the lowest in Europe It applies to all types of company, including financial services companies.
- * Under the Tax Law, 118(I) of 2002, gains from trading in stocks and shares are exempt from taxation.
- * A company which deals in stock broking as its normal trading activity will be taxed at only 10% on the profits received on its services.

- * Cyprus is a party to a large number of double taxation treaties.

In addition to the above tax advantages, the following points are seen as very important reasons for incorporating a Cypriot financial services company:

- * The accession of Cyprus into the European Union (EU) and its compliance with all relevant EU Directives, enables Cypriot companies to operate in any other EU Member State either directly or through the establishment of a branch.
- * Due to the geographical position of Cyprus and its reputation as a business centre, worldwide trading in international markets is facilitated by a Cypriot-registered company.
- * The legal, accounting and banking services offered by Cypriot-based firms are excellent and the costs of the incorporation and day-to-day running of a company and office premises in Cyprus, are much lower than in many other jurisdictions, and in particularly those within the EU.

REGISTRATION

If a new company is to be incorporated to provide financial services, the Registrar of Companies will not proceed with registration unless the proposed company first receives a permit from the Cyprus Securities and Exchange Commission (CSEC) authorizing it to operate as a financial services company.

Existing companies wishing to provide financial services have to apply to the CSEC for a permit and must also change their name to include the phrase 'Financial Services Company'. They must also change their Memorandum and Articles of

Association so that the same permit the new activities of the company.

Once all the necessary documents (which are set out below under the paragraph entitled 'Documents to accompany the application') are prepared, an application should be filed with the CSEC with the fee of €3,000 plus €300 for each particular service the Company will ask to be approved. Please add the legal fees, the auditors' fees, the accountants' fees and an annual contribution fee to the Cyprus Securities and Exchange Commission in order to maintain the licence.

The CSEC takes approximately three months to make a preliminary review of the application and provide its first comments.

FINANCIAL SERVICES

1. A company may apply for permission to perform Investment Services and Ancillary Services. Ancillary Services include:
2. Safekeeping and administration of Financial Instruments for the account of clients, including custodianship and related services such as cash/collateral management.
3. Granting of credits or loans to clients to enable them to carry out transactions in one or more Financial Instruments, where the firm granting the loans is involved in the transactions.
4. Advice to undertakings on capital structure, industrial strategy and related matters, and advice and service relating to mergers and buy-outs.
5. Foreign exchange services connected with the provision of investment services.
6. Investment research and financial analysis or other forms of general recommendation relating to transactions in Financial Instruments.
7. Services related to underwriting.
8. Investment services and activities as well as ancillary services of the type included above, related to the underlying of the derivatives mentioned in point 5, 6, 7 and 10 ,on page 3,

where these are connected to the provision of investment or ancillary services.

Permission is required in order to provide Investment Services which relate to a Financial Instrument. Such services/activities are:

- i. Reception and transmission of orders relating to one or more Financial Instruments.
- ii. Execution of orders on behalf of clients.
- iii. Dealing on own account.
- iv. Portfolio Management.
- v. Provision of investment advice.
- vi. Underwriting and/or placing of Financial Instruments on a firm commitment basis.
- vii. Placing of Financial Instruments without a firm commitment basis.
- viii. Operation of Multilateral Trading Facilities.

FINANCIAL INSTRUMENTS

The Financial Instruments for which Investment Services may be provided are:

1. Transferable securities.
2. Units in collective investment undertakings.
3. Money market instruments.
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives, instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forward rate agreements 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 (otherwise 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 and/or an MTF.

7. Options, futures, swaps and any other derivative contract relating to commodities that can be physically settled not otherwise mentioned in point 6 above, and not being for commercial purposes, which have the characteristics of other derivative Financial Instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls.
 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, emission allowances or inflation rates or other official economic statistics that must be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned here, which have the characteristics of other derivative Financial Instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognized clearing houses or are subject to regular margin calls.
- (B) A Cyprus financial services company that provides the services listed above in paragraph A (a) and/or A (d), and does not hold capital or Financial Instruments of clients, may have an initial share capital of:
- a. At least €30,000, or
 - b. At least €40,000 and professional compensation insurance covering all member states or equal guarantee against professional negligence with an insurance company for the amount of at least €1,000,000 per damage (loss) and collectively at least for the amount of €1,500,000 per year for all loss.
- (C) The initial share capital, holding capital or Financial Instruments of clients of a Cyprus financial services company providing the following services, is set at €1,000,000:
- a. Dealing on own account.
 - b. Underwriting and/or placing of Financial Instruments on a firm commitment basis.
 - c. Placing of Financial Instruments without a firm commitment basis.
 - d. Operation of Multilateral Trading Facilities
- A company, which is also registered under the Exercise of Insurance Activities and Other Related Matters Law to provide intermediary services in the insurance field, should have an initial share capital of:

- a. At least €40,000, or
- b. At least €20,000 and professional compensation insurance covering all member states or equal guarantee against professional negligence with an insurance company for the amount of at least €500,000 per damage (loss) and collectively at least for the amount of €750,000 per year for all loss.

SHARE CAPITAL

(A) The initial share capital, holding capital or Financial Instruments of clients is set at €200,000 for a Cyprus financial services company providing the following services:

- a. Reception and transmission of orders relating to one or more Financial Instruments.
- b. Execution of orders on behalf of clients.
- c. Portfolio Management.
- d. Provision of investment advice.

PERMIT

The permit of the CSEC is usually granted where examination reveals that the applicant company has:

1. The intention to provide financial services in

- accordance with the Law and the requirements of the CSEC;
2. Appropriate shareholders and officers for the proper management of the company;
 3. Sufficient funds;
 4. Sufficient organizational structure and mechanisms;
 5. The minimum share capital required;
 6. Sufficient funds of its own;
 7. Other qualifications.

The CySeC will usually take around six months to issue its final reply on whether a permit is given or denied, provided that all the documents are duly and promptly filed, proper co-operation exists between the clients and the professionals promoting the application, and replies to any further requests from the CSEC are prompt and direct.

DOCUMENTS TO ACCOMPANY THE APPLICATION

The documents to be delivered to the CSEC with the application, the necessary letters and the Memorandum and Articles of Association include the following:

1. Organizational chart/structure of the client's group of companies (if applicable);
2. Information on the participation of the shareholders and the applicant company (if in existence) in any Stock Exchange (if applicable);
3. Five years' tax statements, tax notices and audited capital statements of the applicant company (where the company is in existence) and three years accounts of the main shareholder and the other shareholders of the applicant company;
4. Certificates of Good Standing for the main shareholders of the applicant company, the directors of the main shareholders of the applicant company (if legal persons) and the company applying for a permit (if in existence);

5. Criminal record excerpt and bank references for the main shareholders of the applicant company and all officials of such shareholders, as well as the persons who will have positions in the structure of the new company;
6. General information on the applicant company, the main shareholders, the shareholders of those main shareholders (if legal persons), their officers and the previous and current staff (including questionnaires and CVs);
7. Consolidated group accounts of the applicant's group of companies (if applicable);
8. Regulation plan for the prevention of money laundering by the applicant company;
9. Computer system description for the applicant company and description of the monitoring system of the main shareholder of the applicant company and the applicant for the good operation of the management information and all other systems;
10. Business plan and plan of operations and procedures for the applicant company;
11. Plan of action relating to investments to be conducted by the applicant company;
12. Basic corporate documentation of the applicant company (if in existence) and the main shareholders;
13. Name, father's name, date and place of birth, citizenship, nationality, residence address, telephone number, identity card or passport number and country of issue, participation percentage in the applicant company and the main shareholders, relationship with any entity listed on any stock exchange, academic qualifications, professional qualifications, professional experience and investment services qualifications of each member of the board of directors and managerial staff of the applicant company;
14. Relevant questionnaires for the above persons;
15. Copies of the authorizations given to the main shareholders in other countries, particularly for the provision of financial services;

16. Description of audit trail ensuring the adequate and rapid provision of information to the CSEC and how the software system will supply the CSEC with financial information;
17. Description of how the applicant company will evaluate and control its representatives;
18. Description of how the applicant company will satisfy capital adequacy and liquidity;
19. Description of back-up systems to restore smooth operation in case of failure of the central system for recording, clearing and account processing, and in case of future considerable increase in the volume of transactions;
20. Information on the representatives and independent agents with whom the applicant company will co-operate, and a statement of responsibilities and services to be provided by the representatives or independent agents;
21. Information whether the applicant company or any group company has been an administrator or custodian of a mutual fund or collective investment scheme or a member of a legal entity of private or public law engaging in credit, insurance or general financial activities anywhere in the world;
22. Information on any business conducted abroad by the applicant company and the main shareholders;
23. Composition and projected development of the list of clients and the method of approaching and providing services to them;
24. Projected evolution of the applicant company's human, technical and financial resources;
25. Statement of the loans and credits of the applicant company and the main shareholders.
26. Confirmation that the applicant possesses or will possess the capital required as its initial capital and that it will undertake to block it in a bank account held by a credit institution or institutions of a member state, when the Commission so requests. At the final stage of

assessment of the application for the granting of a license, the CySeC shall demand from the applicant the submission of a confirmation by one or more credit institutions of a member state, that the entire initial capital required according to the Law is blocked in a bank account and that it will remain blocked until the permit is granted.

27. Other documents as may be requested by the CySeC during the review of the application or after

As regards number 13 above, the CSEC must be satisfied that the academic qualifications, professional qualifications and experience, and investment services qualifications of the persons holding positions in the applicant company will be sufficiently high to provide financial services.

The CSEC also requires the employment of Cyprus-based personnel in the positions of non-executive directors, back officer, money laundering compliance officer and internal auditor, and the employment of Cypriots is looked upon favorably.

It is the policy of the CSEC to request that, once the permit is given, the company should open an office in Cyprus within a short period of time for the provision of services. Accordingly, the procedure for finding an office should begin at the early stages of the application so that the details may be presented to the CSEC.

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