



oneworld

Cyprus  
Investment Firms CIF\*



\* in the EU Capital Markets





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# Cyprus\*

## Investment Firms CIF

\* in the EU Capital Markets



# Foreword



European capital markets are becoming integrated. This development is paving the way to unprecedented cross border opportunities for investors within the EU. Investors can now register their investment vehicle in Cyprus – an established, tax efficient EU member state – and make use of the EU capital market opportunities.

Harmonisation and integration within the EU is now a fact: the EU directives, notably Markets in Financial Instruments Directive (MiFID) and the Prospectus Directive, have facilitated the process. MiFID delivers a range of benefits which include cross-border access to national retail markets, improved transparency across EU capital markets and a level playing field for investment firms across the EU. It is also creating a more coherent regulatory regime across Europe. The “Single EU Passport” facilitates trading in the EU and protects investors from the excesses of secondary markets.

One of the main purposes of the Investment Services Directive (ISD) was to grant “Single EU Passport” to investment firms and enable them to provide investment services on a cross-border basis or to establish a branch in another EU member state, in each case on the basis of home state authorisation. MiFID extends the scope of the regulatory framework to reflect developments in financial services which is very significant.

A Cyprus Investment Firm (CIF) is able to operate within the EU and take advantage of the harmonisation rules prevailing. The implementation of the rules has resulted in new business opportunities as more services are passportable. Investment firms in EU that are ready to face this challenge now reap many of the rewards of the “Single EU Passport” possibilities.

Cyprus is considered by many as the top corporate tax regime in the EU, offering the lowest tax rate while fully complying with the EU directives and procedures and OECD requirements against harmful tax practices. It is an ideal investment services company choice for financial set-ups from other EU member states as well as the rest of the world.

At Oneworld ltd, we are constantly developing new services for clients to address new challenges and opportunities. We endeavour to provide them with quality services to meet their requirements. At the same time, we present them with those prospects which can lead to new opportunities to enhance their growth and corporate values.



George Philippides  
Chief Executive

October 2008

# Contents



1	EU Capital Markets and MiFID	8-13
2	Cyprus as a Location	14-16
3	Cyprus as an IFC	17-19
4	Taxation in Cyprus	20-23
5	Professional Requirements	24-25
6	Cyprus Investment Firms CIF	26-33
7	CIF and IF Branches	34-37
8	Cyprus Companies	38-39
9	Oneworld	40-42



# 1 EU Capital Markets and MiFID





Accessing the EU securities markets is becoming increasingly attractive. European exchanges in recent years outperformed 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 Stock Exchanges provide companies with the appropriate status for further European and international expansion.

Capital markets in Europe have become more open and liquid. The cost of raising finance has significantly decreased. Companies registered in Cyprus, for example, can conduct public offers in other EU member states or have their shares admitted to trading on an EU Exchange Regulated Market. Companies can now take decisions on tax optimisation and cheap capital independently, thus optimising their results.

## **MiFID**

The Markets in Financial Instruments Directive (MiFID) is a key criterion in the EU's Financial Services Action Plan (FSAP) which is designed to create a single market financial services. It reinforces the unified concept of "Single EU Passport" – initiated by the Investment Services Directive – which allows investment firms to offer products and services across the EU, without restrictions of borders or protection from national regulatory regimes. It liberalises Europe's capital markets by exposing them to pan European competition, while seeking to introduce common standards of regulation and investor protection.

In 2005 Cyprus harmonised the local legislative framework in line with the Prospectus Directive. It has also adopted MiFID which has strengthened the European capital market. It is one of the most significant pieces of EU legislation for financial services markets and investment intermediaries for a decade. Its impact is enormous, both for the industry as a whole and on individual institutions.

MiFID is a key plank to create a single market in financial services. It strengthens the "Single EU Passport" (first provided by the Investment Services Directive "ISD") which allows investment firms to offer products and services across the EU without restrictions of borders or protectionist national regulatory regimes. It liberalised Europe's capital markets and also extends the scope of investment services and activities covered. It has created a revised regulatory framework which reflects developments in financial services and markets since the ISD was implemented.

Most of the focus of MiFID deals with the tactical and operational changes to ensure compliance. This is a much greater challenge than initially anticipated, mainly due to the number of changes that must be managed. To summarise MiFID's requirements, we set-out these as follows:

### **Scope**

MiFID broadens the range of services regulated in the EU. For example, the following securities were not covered by the ISD but are included in the scope of MiFID: derivatives, commodity derivatives, credit derivatives and financial contracts. In addition, certain investment services that were not covered by the ISD are now regulated by MiFID. Further to the receipt and transmission of orders in relation to financial instruments and the execution of orders on behalf of clients, MiFID also includes investment advice and the operation of Multilateral Trading Facilities (MTF).

### **Conduct of business**

The list of areas covered by the conduct of business rules is fairly wide and extends from client classification to the provision of advice, tests of suitability and appropriateness for trades on behalf of clients, rules around

best execution and maintaining proof thereof to rules around financial promotions and transaction reporting. The requirements have led to changes in both the flow of information within businesses but also the set-up of information technology systems so as to be able to maintain data and prove compliance over time.

### **Organisational requirements**

MiFID set out new and tougher requirements relating to the organisation of business in regulated firms, particularly in the areas of compliance, internal audit, risk management, outsourcing, systems and controls and record-keeping. For example, firms falling under the MiFID regulation are required to set up full-time compliance, internal audit and risk management functions.

### **Market and transparency**

MiFID also significantly increases the requirements for pre- and post-trade price transparency, especially for firms that frequently and systematically deal on their own account. The challenge of MiFID is to bring together compliance, information technology departments and the front, middle and back office of financial markets in such a way as to benefit from the new requirements within the tight time frame.

### **CySEC**

The Cyprus Securities and Exchange Commission (CySEC) is the regulatory authority in Cyprus. It was established in accordance with section 5 of the Cyprus Securities and Exchange Commission Law of 2001 as a public corporate body.

CySEC has the following responsibilities:

- to supervise and control the operation of the Cypriot Stock Exchange and the transactions carried out therein
- to supervise and control the issuers of securities listed on the Stock Exchange, licensed Investment Services Companies as well as Collective Investment Schemes
- to carry out inspections over companies the securities of which are listed on the Stock Exchange, brokers and brokerage firms, investment consultants and mutual fund management companies
- to request and collect information necessary for the exercise of its responsibilities, to demand in writing the provision of information from all natural or legal persons and organisations that are considered to be in a position to provide such information
- to grant operation licences to investment firms including investment consultants, brokerage firms and brokers
- to recall operation licences for special reasons, as it is more specifically determined in regulations that are published in accordance with the Law of Establishment of CySEC
- to impose administrative sanctions and disciplinary penalties to brokers, brokerage firms, investment consultants as well as to in any other legal or natural person whom fall under the provisions of the Stock Market legislation



## CIF\* OFFERING SERVICES IN EU

CIF	EU Member State
Alfa Capital Holdings (Cyprus) Ltd	Sweden
Argus Stockbrokers Ltd	Greece
Atlantic Securities Ltd	Greece
Aton International Ltd	Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Romania, Slovakia, Slovenia, Spain, Sweden, UK
BrokerCreditService (Cyprus) Ltd	UK
Centaur Financial Services Ltd	Greece, UK
CLR Securities and Financial Services Ltd	Greece
Easy Forex Trading Ltd	Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Romania, Slovakia, Slovenia, Spain, Sweden, Portugal, UK
Euro-Orient Securities and Financial Services Ltd	Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK
Fenway Services Ltd	Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, UK
Finam Ltd	Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK
Global Capital Securities and Financial Services Ltd	Greece
Harvest Financial Services Ltd	Greece

## CIF\* OFFERING SERVICES IN EU

Hellenic (Investments) Ltd	Greece
MDM Investments Ltd	UK
Laiki Investments (Fin. Services) Public Company Ltd	Greece
Mega Equity Securities and Financial Services Ltd	Greece
Otkritie Finance (Cyprus) Ltd	Germany, UK
P.C.M. Advisers Ltd	Greece
Pasternak Holdings Ltd	Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, UK
Renaissance Capital Investments (Cyprus) Ltd	Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, UK
Renaissance Financial Services Ltd	Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, UK
Renaissance Securities (Cyprus) Ltd	Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, UK
Sharelink Securities and Financial Services Ltd	Belgium, France, Greece, the Netherlands, Portugal, Romania, UK
TD Investments Ltd	Germany, the Netherlands, UK
The Cyprus Investment and Securities Corporation Ltd	Greece



U.F.G.I.S. Structured Holdings Ltd	Austria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Spain, Sweden, The Netherlands, UK
U.F.G.I.S. Trading Ltd	Austria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Poland, Spain, Sweden, UK
UBS Advisory Services Ltd	Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, UK
Unicredit Aton International Ltd	Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Romania, Slovak Republic, Slovenia, Spain, Sweden, UK
Windsor Brokers Ltd	France, Germany, UK

\* licenced Cyprus Investment Firms

## 2 Cyprus as a Location





## **The Cyprus economy**

The Cyprus economy is based on the free enterprise system. The private sector is the backbone of economic activity, with the government's role being limited to monitoring the economy and the provision of public utilities, although with Cyprus' accession to the EU, privatisation of public utilities is inevitable.

In recent years the economy has been growing at an annual rate of nearly 4 percent.

Inflation in recent years remained at a relatively low level average of 3.5 percent. The per capita income of the Greek Cypriots at around €20.000 is today one of the highest in the Mediterranean. This is a notable performance, when considering key socio-economic factors such as the excellent housing conditions, low crime rate, pollution free environment which are not reflected in the per capita income.

## **Cyprus and the EU**

The Republic of Cyprus became a member of the EU as of 1 May 2004.

The accession of Cyprus to the EU and the adoption of the *acquis communautaire* have given rise to new challenges and opportunities in the business world in Cyprus. Moreover, a number of new funding opportunities became available from EU credits aiming mainly to support the development of business activities in the manufacturing, agriculture and agro-tourism sectors as well as human resource upgrading and the development of the rural areas of the island.

Cyprus introduced euro (€) as its official currency as of 1 January 2008.

## **Transit trade**

The development of the container transshipment business in Cyprus started in the late 1970s. Because of the island's strategic position, efficient port facilities, minimal customs formalities, advanced business infrastructure and stable political environment, container transshipment dramatically increased in volume and expanded in scope.

The island is located at the crossroads of major international trade route between Europe, Asia and Africa. This makes it the natural transshipment load centre for shipping lines delivering and receiving cargo to/from any combination of European and Middle East ports in the Mediterranean. Furthermore, it can act as a central depot for distribution to the markets of Europe, the Middle East, the Gulf and north Africa.

## **Services sector**

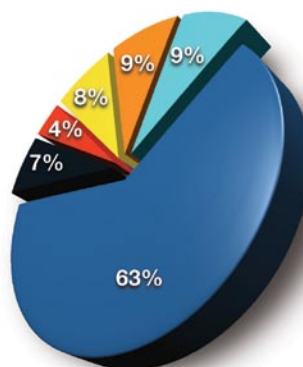
The services sector has become increasingly important as indicated by its almost 70 percent contribution to GDP and its share in employment, while the importance of agriculture and manufacturing has been declining steadily.

## Cyprus as a Location

Services include banking and financial services, insurance, advertising, legal, architecture and civil engineering, accounting and auditing, consultancy, design, electrical and mechanical engineering, film production, market research, medical, printing and publishing, public relations, education, software development, tourism and related services, telecommunications, transportation and other services. The size and rate of growth of this sector, which has been the fastest in recent years, has led observers to describe Cyprus as a “service economy”.

GDP breakdown by sectors:

- services including tourism 63%
- manufacturing 9%
- transport and communication 9%
- construction 8%
- agriculture 4%
- other 7%



### Foreign investment

The official government policy is welcoming to foreign investment provided that this does not have adverse environmental effects. The Council of Ministers of Cyprus liberalised the Foreign Direct Investment (FDI) policy for both EU and non EU nationals as of 1 October 2004, the main features being:

- restrictions relating to the minimum level of investment and the foreigners' participation percentage have been abolished in most sectors
- permits and authorisations that may be required are to be issued by relevant local authorities
- foreign companies now have the opportunity of investing and establishing a business in Cyprus on equal terms with local investors

Key Economic Indicators		2002	2003	2004	2005	2006	2007
International Reserves	€million	2.975	2.765	2.992	3.671	4.456	3.970
Current Account Balance	% of GDP	-3.7	-2.2	-5.0	-5.6	-5.9	-6.0
Inflation Rate	%	2.80	4.14	2.29	2.56	2.49	2.40
Registered Unemployed	%	3.1	3.5	3.6	3.7	3.6	3.1
Gross Domestic Product (at current prices)	€million	10.970	11.740	12.635	13.442	14.297	15.503
Gross Domestic Product (real growth)	% change	2.0	1.8	4.2	3.9	3.8	4.4
Gross Domestic Product Per Capita	€	15.460	16.292	17.144	17.736	18.568	19.092
Gross Domestic Product Per Capita	EU 25=100	82.6	85.2	87.6	88.9	88.4	90.2

# 3 Cyprus as an IFC



## Investment Companies

Cyprus is an attractive location for direct investment. The strategic position of the island, its excellent climate, the well developed infrastructure and the plentiful supply of high quality, well trained labour are some of the advantages Cyprus has to offer. In addition, the favourable tax regime makes Cypriot investment companies an ideal location for manufacturers, especially those with Middle East and north African export activities.

This investment vehicle is suitable both for EU inbound or outbound investments. There are no investment activities that are inappropriate for the Cypriot tax environment. However, there are investment activities which are ideally suited to Cypriot tax environment such as:

- holding companies
- finance companies
- royalty companies
- investment funds
- south Europe, Middle East, central and eastern Europe head office operations

The tax climate offers many advantages to investors setting up in Cyprus, which include:

- low taxation, the lowest rate in the EU
- extensive double tax treaties network
- exemption from tax on dividends received, in most cases
- exemption of capital gains on shares and securities



## Cyprus as an IFC

- exemption from withholding tax on the repatriation of income as dividends, interest and royalties
- access to EU directives

European enlargement and the accession of Cyprus opened up a new gate to investors. Cyprus is no longer just the traditionally strong link of investments in and out of central and eastern Europe, Europe and Russia, but it is also a strong connecting link of investments in or out of the EU.

### Foreign Investment

Foreign investment has long been considered as one of the most important elements of the country's economic prosperity. Considerable efforts have been spared to facilitate and enhance the attraction of foreign investments, and create a friendly environment for foreigners to establish their business on the island.

In this context, the government has liberalised the Foreign Direct Investment (FDI) policy for both EU and non-EU nationals. Administrative procedures have been simplified and as far as the minimum level of investment and the percentage of foreign participation are concerned, no limitations apply in almost all sectors of the economy.

Incentives for locating a business in Cyprus include:

- favourable taxation which includes, inter alia, 10 percent corporation tax, low personal income tax and no capital gains tax on the sale of shares
- a prosperous and resilient economy enjoying long term stability and growth
- privileged location at the crossroads of three continents
- member of the EU and a gateway for the movement of goods inside and outside the EU
- liberal FDI policy
- skilled workforce, highly qualified and multilingual
- double tax treaties with nearly 40 countries
- bilateral investment agreements with 20 countries
- excellent infrastructure providing easy access by air and sea
- low set up and operating costs
- simplified procedures for acquiring requisite permits
- efficient legal, accounting and banking services
- a fine place to live and work with pleasant climate and high standard of living

Cyprus is pursuing the goal of establishing itself as a regional research and technology centre. Through incentives, the country is rapidly being transformed into a hub for technological development within the eastern Mediterranean region. Foreign capital plays a fundamental role in these efforts, as it contributes substantially to the introduction of high technology, know-how and expertise.

Industrial development has been amongst the primary objectives of the government, as it constitutes a vital component of economic policy. The accession of Cyprus in the EU provides Cypriot enterprises with the opportunity to participate in the various community programmes concerning industrial technology: namely product development, marketing, professional training etc thus further enhancing the process of restructuring.

	<b>Belgium</b>	<b>Denmark</b>	<b>Ireland</b>
Treaty network	Good	Good	Good
Treatment of foreign dividends	95% exempt subject to 5% holding and CFC provisions	Exempt if 20% holding subject to CFC provisions and underlying trading	Taxable but foreign tax credits normally a complete relief from Irish taxation activity
Treatment of capital gains	Exempt	Exempt but three year holding requirement	Exempt subject to underlying trading activity
Withholding taxes on dividends paid to non-resident shareholders	Yes, up to 25%	Yes, up to 28% but treaty-protected entities exempt if they hold 20% for one year	Yes, up to 22%
Capital duty	0,5%	Nil	Nil
Minimum paid up share capital	€18.600	€16.800	0
Cost of Incorporated annual statutory administration (Low/Medium/High)	High	High	Medium

	<b>Luxembourg</b>	<b>UK</b>	<b>Cyprus</b>
Treaty network	Good	Excellent (more treaties than any other country)	Very Good
Treatment of foreign dividends	Exempt subject to 10% holding for one year and CFC provisions	Taxable but foreign tax credits normally a complete relief from UK taxation provided foreign tax at subsidiary level greater than 30%	Exempt
Treatment of capital gains	Exempt subject to 25% holding and one year holding	Exempt subject to 10% holding and trading subsidiary (or holding company or trading group)	Exempt except on property situated in Cyprus
Withholding taxes on dividends paid to non-resident shareholders	Yes, up to 25%	Nil	Nil
Capital duty	1%	Nil	Nil
Minimum paid up share capital	€12.500	No	No
Cost of Incorporated annual statutory administration (Low/Medium/High)	High	Low	Low

# 4 Taxation in Cyprus





Tax reform that became effective in 2003 provides for:

- uniform tax rate - no discrimination
- lifting on exchange controls
- freedom for all enterprises to do business in Cyprus

### **Tax treatment of incoming dividends**

Cypriot law provides full international participation exemption from local taxation of dividends received by a holding company from a foreign subsidiary if the Cypriot company's holding in the foreign company exceeds 1 percent. A domestic participation is also available which does not involve any particular holding period or amount.

### **Tax treatment of capital gains on the sale of shares**

The exemption from tax of trading gains and capital gains made by a Cypriot holding company from the sale of shares in a foreign subsidiary puts Cyprus on a par with the traditional European holding company regimes. No minimum participation threshold is required. Gains from local subsidiaries are also exempt, only gains from shares in companies owning immovable property in Cyprus are not.

### **Withholding tax on outgoing dividends**

Outgoing dividends remitted by a Cypriot holding company to its ultimate parent company are not subject to withholding tax in Cyprus.

### **Withholding tax on interest**

The EU Interest and Royalty Directive has been incorporated into Cyprus' domestic law. The result is exemption at source of interest whose beneficial owner is a non-resident of Cyprus and resident in an EU member state.

### **Interest deduction for borrowing costs**

Generally, interest expenses payable by a Cypriot company are fully deductible.

### **Thin capitalisation**

Cypriot tax legislation does not contain specific provisions relating to "thin capitalisation" of companies ie debt to equity ratio restrictions. A Cypriot holding company may, therefore, be capitalised with loans without any risk that interest paid at arm's length to its parent company will not be deductible.

### **Controlled Foreign Company (CFC) legislation**

Compared with many other jurisdictions, Cypriot CFC legislation is rather limited, targeting only certain types of income that are not derived from real business activities to create a distinction between participation (active) and investment (passive) income. The CFC provisions will be triggered

## Taxation in Cyprus

if more than 50 percent of the company's activities result directly or indirectly in investment income, and the foreign tax burden of the non-resident company paying the dividend is substantially lower than the tax burden of the Cypriot company.

### **Double taxation treaties**

Cyprus' double taxation treaty network ensures that dividends received by a Cypriot holding company from its foreign subsidiary are either exempt from or subject to low withholding tax in the subsidiary's place of residence.

### **Other benefits of a Cyprus holding company**

Cypriot corporate tax on business profits is at the relatively low rate of 10 percent. Cyprus does not have any rules stating that holding companies cannot perform operating activities. Companies are allowed to carry forward losses and treat foreign taxes as expenses.

### **Interest income**

Any interest received by a Cypriot holding company that is deemed not to be from or closely related to its ordinary business activities is subject to 10 percent tax on half the interest received. It is also subject to a defence tax of 10 percent on the whole of the interest received, thus giving a total tax liability of 15 percent.

The absence of "thin capitalisation" rules, combined with the tax treatment of interest make it more favourable to finance Cypriot holding companies through debt and capitalise foreign companies by way of loans rather than through equity. The advantages are that borrowings will not be challenged under "thin capitalisation rules". Cypriot double taxation treaties usually protect interest receipts from withholding taxes applicable in the source country and there is no withholding tax on interest payable to non-Cypriot residents.

### **Liquidation**

If a Cypriot holding company is liquidated, all the profits of the last five years which have not been distributed, are then deemed to have been distributed and are therefore subject to defence tax, if applicable. This does not apply to liquidation in the context of a reorganisation.

### **The EU Parent Subsidiary Directive**

This directive, as amended, was transposed into Cypriot law in the form of the Income Tax Law and the Special Contribution for Defence Law. These laws establish a liberal system of double taxation avoidance. The new tax regime extends to non-EU countries, as the laws distinguish only between residents and non-residents of Cyprus.

On the taxation of dividends, the Cypriot tax laws are even more liberal than the directive. Foreign dividends are exempt when a Cypriot resident company holds at least 1 percent, where there may be a foreign tax credit available under a double taxation treaty or, if there is no treaty, unilateral relief at the discretion of the Inland Revenue Authority.

On a holding period, the second derogation of the directive allows a member state not to apply the directive. This applies to parent companies in that country that have not maintained a “qualifying holding” in a subsidiary company in another member state for at least two years. It also applies to subsidiary companies in a country in which a parent company in another member state has not maintained such a holding for the same period, both in respect of incoming and outgoing dividends.

### **Cessation of activities**

A Cypriot holding company held by non-resident shareholders can cease operations in Cyprus and distribute assets to its shareholders in any form (dividends, proceeds on liquidation etc) without any tax cost to the shareholders.

If the Cypriot holding company owns immovable property in Cyprus then its disposal at the time of ceasing operations may result in the imposition of capital gains tax under certain circumstances.

### **Company reorganisations**

The new tax rules for reorganisations of companies such as mergers, divisions, transfers of assets (including immovable property) and exchanges of shares follow the EU Merger Directive. They extend the directive to domestic reorganisations, cross border reorganisations involving member and non-member states and reorganisations abroad with tax implications in Cyprus. Such reorganisations do not lead to recognition of income at company and shareholder levels and any gains made are exempt from Cypriot tax. Losses incurred before a reorganisation may be carried forward indefinitely by the new entity and losses from one activity may be offset against profits from another. No stamp duty is payable on documents effecting a reorganisation.



# 5 Professional Requirements

- Governance, Operational Effectiveness and Regulatory Compliance
- ISA have been the Applicable Auditing Standards in Cyprus for over three decades and there is substantial local expertise in the area
- IFRS are the Generally Accepted Accounting Standards in Cyprus



All Cypriot registered entities are required to prepare financial statements taking into consideration subsidiaries in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU and issued by the International Accounting Standards Board (IASB). Cyprus has no special local accounting rules, only IFRS apply.

IFRS have been the Generally Accepted Accounting Standards in Cyprus for over three decades and there is substantial local expertise in the area.

Every CIF must submit to the CySEC, within four months from the end of the financial year audited financial statements that provide a true and fair picture of the CIF and are in accordance with applicable accounting standards and rules.

Auditors apply **International Standards on Auditing (ISA)** in carrying audits of financial statements. They include the examinations of financial statements and attesting to the truth and fairness for statutory audit purposes.

Further, the CySEC requires from each CIF proper **Governance Controls**.

This includes, inter-alia, setting-up and maintaining an internal audit department and developing a risk management framework. It is expected that risk and control weaknesses in a CIF will be identified, considered and checked. The establishment of an Audit Committee which in an organisation is expected to introduce best practices of corporate governance is encouraged.

**Regulatory Compliance** is also significant. A CIF is regulated by the CySEC and is expected to comply with relevant legislation and submit returns and information on a prompt and timely basis.

Further, **Operational Effectiveness** is key to the above. This includes improving the quality and consistency of Management Information Systems to support management decisions, making cost reductions, revising span of control to increase effectiveness in decision making, to mention just a few.

# 6 Cyprus Investment Firms CIF



With its entry into the EU in May 2004, Cyprus has become one of the most attractive countries to set up and conduct investment and financial services activities.

### **The Investment Firms Law**

The Cyprus Investment Firms Law 144 (I) 2007 (the “Law”) provides the legal framework for the provision of investment services as well as for the registration, regulation of operations and supervision of Cypriot Investment Firms (CIF).

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

- CIF: investment firms operating within Cyprus, excluding credit institutions, provided that the CIF has obtained the appropriate authorisation from the Cyprus Securities and Exchange Commission (CySEC)
- credit institutions established in Cyprus: provided that the credit institutions have received an authorisation 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:

- reception and transmission of orders in relation to one or more financial instruments
- execution of orders on behalf of clients
- dealing on own account
- portfolio management
- investment advice
- 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 Facilities (MTF)



## Cyprus Investment Firms CIF

### Ancillary Services

- safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
- granting credits or loans to an investor to allow to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertaking
- foreign exchange services where these are connected to the provision of investment services
- investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.
- services related to underwriting

### Minimum Share Capital

An initial capital of at least two hundred thousand euro (€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:

- (a) reception and transmission of orders in relation to financial instruments
- (b) execution of orders on behalf of clients
- (c) portfolio management
- (d) provision of investment advice

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:

- (a) eighty thousand euro (€80.000) or
- (b) forty thousand euro (€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 one million euro (€1.000.000)

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

- (a) dealing on own account
- (b) underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
- (c) placing of financial instruments without a firm commitment basis

- (d) operation of a Multilateral Trading Facility (MTF)

A CIF that is also registered under the Insurance Services Law to provide insurance intermediary services in the insurance sector must comply with the requirements of the Law, and in addition must have an initial capital of:

- (a) forty thousand euro (€40.000) or
- (b) twenty thousand euro (€20.000) 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 five hundred thousand euro (€500.000)

### **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 by CySEC.

A CIF must be licenced by CySEC, which is the relevant regulatory and supervisory authority. In this respect, a written application to CySEC must be submitted and accompanied by a number of documents including:

- a) a business plan, which should include a description of the operations, the organisational structure, forecasts for the first two financial years and the names of at least two experienced and reliable persons who shall run the business
- b) draft Memorandum and Articles of Association and such as they are expected to be formulated after the granting of the CIF authorisation
- c) 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 the CySEC
- d) draft internal regulations (Operations Manual) depending on the investment and ancillary services which the company proposes to provide
- e) draft organisational structure of the applicant company
- f) description of the applicant's computer network and electronic infrastructure
- g) draft regulation in accordance with acceptable practices for the prevention of the legalisation 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 - ultimate beneficial shareholders.

CySEC will reach a decision within 4 months following the submission of a duly completed application, on either granting a CIF authorisation or refusing the application.

## Cyprus Investment Firms CIF

During this 4 month period CySEC may request additional information or clarifications regarding the application submitted.

CySEC must be satisfied with the paperwork submitted including:

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

The main shareholders, managerial staff and internal auditors may be called for personal interviews with the Chairman of CySEC.

### Criteria for Successful Application

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 otherwise capable of exercising an 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 to fulfill their duties. One of these two executives should be employed by the company on a full time basis and live in Cyprus. They should both be accessible and available to appear before the Commission with 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 structures and mechanisms in order 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 telecommunication and PC network, staffed with employees on a full time/part time basis as described in the applicant's organisational chart
- heads of the core services departments must possess relevant professional competence certificates from the Ministry of Finance of Cyprus. CIF has a 12 month period subsequent to the issue of the licence to comply with the above requirement

After the granting of the authorisation, CIF must comply with the on-going obligations provided by the law and the relevant CySEC directives.

\* Experienced and reliable persons\* to be appointed as directors of CIF are not defined in the Law. However, a manager will need to have the following qualities:

1. experience of at least three years in the financial services sector in the market(s) where the company will be operating
2. he/she will need to possess adequate academic background and practical experience
3. he/she should be in a position to appreciate the nature of the business which the applicant plans to undertake and duly comprehend the nature of the tasks undertaken
4. he/she should also know at least another European language, English is a must in most circumstances

## Tax advantages

CIF 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 10 percent for all entities– the lowest rate in the EU
- 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 any withholding taxes of interest payments made abroad
- absence of withholding taxes on dividend payments from Cyprus
- no thin capitalisation rules
- relative simplicity and certainty of Cypriot tax regime
- favourable network of tax treaties with nearly 40 countries

## Other advantages

- it is an EU member state and compliant with EU laws and regulations
- 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
- recognition as a mature financial services centre with developed infrastructure, a resilient economy, highly qualified professionals and minimum formalities
- licensing in Cyprus and the existence of a regulatory framework improves transparency and legitimacy with regard to shareholders, authorities and others
- legislation has been put in place and is constantly under review to regulate and harmonise operations in the financial services sector
- facilitation of operations of brokerage firms and enhanced prestige on the international markets
- can be used as a springboard for access and easy setting up in prestigious financial markets within the EU (“Single EU Passport”)
- the island enjoys sound reputation
- has a pool of highly educated and qualified professionals who can advise clients and provide expert support



### Licensed CIF

- 3D Global Financial Services Ltd
- Advice Nordic Asset Management Ltd
- Alfa Capital Holdings (Cyprus) Ltd
- Alpinex Financial Services (Cyprus) Ltd
- Arbat Capital Ltd
- Argo Capital Management (Cyprus) Ltd
- Argus Stockbrokers Ltd
- Atlantic Securities Ltd
- Atlas Capital Financial Services Ltd
- Aton International Ltd
- Axia Ventures Group Ltd
- BrokerCreditService (Cyprus) Ltd
- Centaur Financial Services Ltd
- CLR Securities and Financial Services Ltd
- Consulco Financial Services Ltd
- Deloitte Investment Services Ltd
- DFG Capital (Cyprus) Ltd
- Easy Forex Trading Ltd
- Egnatia Financial Services (Cyprus) Ltd
- Euro-Orient Securities and Financial Services Ltd
- Fenway Services Ltd
- Finam Ltd
- FMC Securities Ltd
- FX Global Markets (FXGM) Ltd
- Global Capital Securities and Financial Services Ltd
- Harvest Financial Services Ltd
- Hellenic Bank (Investments) Ltd
- Heracles Trust Ltd
- IKOS CIF Ltd
- Interfin Trade (Overseas) Ltd
- KAB Strategy (Cyprus) Ltd
- Kerosforos Investment Services Ltd
- Laiki Brokerage Ltd
- Laiki Investments (Fin. Services) Public Company Ltd
- Linvest Capital Ltd
- MDM Investments Ltd
- Mega Equity Securities and Finance Services Ltd
- Meritkapital Ltd
- Metropol (Cyprus) Ltd
- NKB Investments Ltd
- Nomos Investment (Cyprus) Ltd
- Olma Financial Services Ltd
- Otkritie Finance (Cyprus) Ltd
- P.C.M. Advisers Ltd
- Pasternak Holdings Ltd
- Plasma Enterprises Ltd
- Regency Asset Management (Cyprus) Ltd
- Renaissance Capital Investments (Cyprus) Ltd
- Renaissance Financial Services Ltd
- Renaissance Securities (Cyprus) Ltd
- Reserve Invest (Cyprus) Ltd
- SL Capital Services Ltd
- Sharelink Securities and Financial Services Ltd
- Solid Financial Services Ltd
- TD Investments Ltd
- TDAM (Cyprus) Ltd
- The Cyprus Investment and Securities Corporation Ltd
- U.F.G.I.S. Structured Holdings Ltd
- U.F.G.I.S. Trading Ltd
- U.P.M. Ltd
- UBS Advisory Services Ltd
- Unicredit Aton International Ltd
- Veles International Ltd
- Windsor Brokers Ltd
- WS Financial and Investment Services Ltd
- XS Capital Securities & Financial Services Ltd



# 7 CIF and IF Branches



## **CIF Branch Abroad**

A CIF may provide investment and ancillary services and perform investment activities through the establishment of a branch in another EU member state or a third country provided that these services and activities are covered by the authorisation granted to the CIF. Ancillary services may only be provided together with an investment service.

A CIF wishing to establish a branch in another EU member state or a third country, notifies the CySEC accordingly and submits the following information:

- EU member state or the third country in which it plans to establish a branch
- address details of the branch
- names of those responsible for the management of the branch as well as its organisational structure
- programme of operations setting out, especially the investment and ancillary services that it intends to provide and the investment activities it shall perform
- in the case of the establishment of a branch in another EU member state, whether the CIF intends to use tied agents in the host member state. In the case of a tied agent established in an EU member state other than Cyprus, the tied agent shall be assimilated to a branch and shall be subject to the provisions of the Cypriot Investment Law relating to branches

CySEC, after taking into account the services and investment activities that the branch of CIF intends to provide, will within 3 months from receiving the information allow its establishment. This assumes that there is no reason to doubt the adequacy of the administrative structure and the financial situation of CIF. If the branch is to be established in an EU member state, CySEC announces the said information to the regulatory authority of the host member state. For CIF branches established in a third country, CySEC announces its decision to the regulatory authority of the third country at the latter's request.

The branch of CIF may commence business in the host EU member state on receipt of a communication from the competent authority of the host member state or 2 months after from the date of transmission of the communication to the regulatory authority.

## **IF Branch in Cyprus from EU member states**

An Investment Firm (IF) that is authorised and supervised by the competent authority of another EU member state may provide investment and ancillary services through the establishment of a branch in Cyprus, provided that these services and activities are covered by the authorisation granted to the IF. Ancillary services may only be provided together with an investment service.

The regulatory authority of the IF host member state shall communicate the following information to CySEC:

- address of the branch
- names of the managers of the branch and its organisational structure



## CIF and IF Branches

- envisaged operations setting out, in particular, the investment and ancillary services that it intends to provide
- whether the IF intends to use tied agents Cyprus. In case of a tied agent established in Cyprus, the said tied agent is obliged to assimilate to a branch and shall be subject to the provisions of the Cypriot Investment Law relating to branches

The branch of the IF may be established and commence business in Cyprus on receipt of authorisation from CySEC or 2 months after from the date of transmission of the communication from the regulatory authority of the home member state.

IF must ensure that all services provided and transactions undertaken by its branch in Cyprus are recorded in a way which enables CySEC to monitor its compliance with all its obligations in respect of its clients or potential clients. This obligation is enforced without prejudice to the possibility of the regulatory authority of the home member state to have direct access to the relevant records.

IF must compile and send to CySEC within 4 months after the end of every financial year, for statistical purposes, a report in relation to the activities of the branch during the previous financial year in terms of providing investment and ancillary services.

### **IF Branch in Cyprus from non-EU countries**

IF that has been authorised and supervised by the authority of a third country may provide investment and ancillary services and perform investment activities in CySEC through the establishment of a branch provided prior authorisation is granted by CySEC.

In order to receive the accreditation, IF shall submit an application to CySEC, the content of which and the information to be provided through it, the details and documents that will accompany it are proportional to those required for granting a CIF authorisation and which are defined by way of directives issued by the regulatory authorities.

CySEC may request additional information and details to be submitted where this is considered necessary for assessing the relevant application.

CySEC shall grant authorisation to IF provided that:

- the branch in Cyprus complies with the provisions of the Cypriot Investment Law
- IF complies with operational conditions and obligations equivalent to those provided by the Cypriot Investment Law

The branch of IF stated during its operation in Cyprus must comply with all the conditions and obligations imposed upon a CIF.



# 8 Cyprus Companies

A Cypriot investment company is generally set up as an ordinary company resident in Cyprus which, besides participating in domestic and/or foreign companies, may also have other activities such as trading, manufacturing, financing. There are no restrictions on its activities.

The Companies Law of Cyprus, which closely resembles the UK Companies' Act 1948 provides for private and public companies. The registration procedure is simple and straightforward and is effected by filing with the Registrar of Companies the company's Memorandum and Articles of Association and pertinent particulars.

Companies are managed and controlled by the board of directors. Under Cypriot Company Law, a private company must have at least one director. In all other cases a minimum of two directors are required.

In accordance with Cyprus' Income Tax Laws, a company is a tax resident of Cyprus if its management and control is exercised in the Republic of Cyprus. It is understood that the definition follows the OECD model convention in relation to "place of effective management". Therefore, as a minimum, management and control is considered to be exercised where the board of directors meets and takes decisions.

The formation and registration procedures, including various administrative needs such as printing of the company's letterheads, opening of statutory books and bank accounts until the certificate of incorporation is issued can normally be completed within a period of two weeks.

Cypriot companies can be either private or public.

A **private company** is a company which by its Articles of Association specifically:

- restricts the right to transfer its shares
- limits the number of its shareholders to 50
- prohibits any invitation to the public to subscribe for its shares or debentures
- prohibits the issue of bearer shares

A **public company** must adhere to the following:

- a minimum of 7 shareholders
- a minimum of 2 directors
- hold a statutory meeting and the directors make a statutory report to its shareholders
- may issue share warrants
- before issuing shares or debentures to the public it must issue a prospectus or a statement in lieu of a prospectus

The conversion from a private company into a public company can be done through a simple filing procedure prior to listing.

Further, the new law on re-domiciliation opens new dimensions to the international investors and traders as non Cyprus companies can now be redomiciled in Cyprus and can benefit from the various provisions of the Cyprus legislation. It also provides for Cyprus registered companies which wish to be re-domiciled abroad.

At the same time the companies will not lose their previous records, investments, trading history and connections.

The main benefits of Cypriot companies used as investment vehicles include:

- conversion from private to public company in Cyprus is a simple filing procedure
- a public company in Cyprus can list easily on any stock exchanges within the EU and benefit from “Single EU Passport” access to European securities markets
- recognition as a mature financial services centre with developed infrastructure, a resilient economy, highly qualified professionals and minimum formalities
- corporation tax rate of 10 percent for all entities, the lowest in the EU
- no withholding taxes on payments of dividends, interest, and in most cases on royalties paid to non residents
- 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 thin capitalisation rules
- no exit costs
- no holding period requirements for the participation exemption on dividends or for the exemption of tax on the disposal of titles

- **a Cypriot private company can be converted into a public company through a simple filing process**
- **a Cypriot public company can be listed in the Cyprus Stock Exchange or any Exchange Regulated Market in the EU**
- **“Single EU Passport” allows a company registered in Cyprus to conduct a public offer in another EU member state or have the shares admitted to trading on EU Exchange Regulated Market**
- **the only requirement existing is that the prospectus must be approved by the CySEC the Cyprus member of the Committee of European Securities Regulators (“CESR”)**



# 9 Oneworld

At Oneworld Ltd we provide solutions to clients. A significant proportion of our business is trust and corporate registration and administration for private individuals. Many corporate clients come to us for a complete solution and for many we also set-up and administer their individualised tax efficient structures. We also render international tax advice, financial advisory, accounting and payroll, VAT and customs, corporate finance and other pertinent services.

Like our clients, we maintain the highest professional standards, code of conduct and integrity. Our due diligence procedures more than meet the requirements of the highly regulated jurisdictions in which we work. Our staff are trained comprehensively in anti money laundering and “know your client” procedures. As one would expect, confidentiality is paramount in all our dealings, and our staff are bound by law to maintain professional confidences.

Oneworld Ltd is one of the leading corporate providers and brings a depth of experience to its work and its dealings with clients. Our personnel consists of chartered accountants, lawyers, financial advisors, tax specialists, administrators and company secretaries as well as a highly trained and knowledgeable corporate and support staff.

There are no typical Oneworld clients. From dynamic young enterprises to global corporations, from wealthy individuals to their families and advisors. We serve them all. We are not just looking after their affairs but also their futures. Wherever they are and whatever they want to achieve. We are not just their advisors, we are their partners.

Our core services cover:

- Financial Advisory
- Business Advisory
- Accounting and VAT
- Tax and Legal
- Corporate and Trust
- Corporate Finance
- Internal Audit and Compliance
- Estate Planning

Our broad range of services to companies in connection with capital market transactions includes:

- **Listings** - access to capital markets, preparation of accountants' reports, assistance with the preparation and review of prospectuses and provision of expert advice on the regulatory requirements of EU Stock Exchanges
- **Tax Planning** - advisory services on the most tax efficient listing structure and on restructuring of groups of companies
- **Financial Due Diligence** - review and analysis of information relevant to a potential acquirer, identification of risks and synergies and generation of potential negotiating points

- **Capital Restructuring** - raising of finance and equity and restructuring of debt
- **Governance, Risk Management and Compliance** - introduction of Corporate Governance practices, assistance to entities regulated by the Cyprus Securities and Exchange Commission to comply with relevant legislation
- **Global Compliance Services** - accounting and administration services, interim staffing, payroll services, corporate statutory compliance.



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