

# Cyprus CIF - Extra Benefits and Entry Into EU

oneworld

## Introduction

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

## The Investment Firms Act 2002

The Cyprus Investment Firms Act of 2002-2004 (the "Act") 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 Act, only the following persons may provide investment services on a professional basis:

- a) *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)
- b) *credit institutions established in Cyprus* - provided that the credit institutions have received an authorisation from the Central Bank of Cyprus, in accordance with the provisions of the Banking Acts 1997 to 2000 for the provision of investment and non-core services
- c) *investment firms with their registered offices outside Cyprus* - whether providing investment or non-core 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 (i) reception and transmission, on behalf of investors, of orders in relation to one or more financial instruments as these are defined in the Act
- (ii) execution of such orders, other than for own account



- 2 dealing in financial instruments for own account
- 3 managing of investment portfolios in accordance with mandates given by investors where such portfolios include one or more financial instruments
- 4 underwriting in respect of issues of financial instruments as these are defined in the Act

Non-core services include any of the following services:

- a safekeeping and administration in relation to one or more financial instruments
- b safe custody services
- c 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 credit or loan is involved in the transaction
- d advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and acquisitions

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- e services connected to underwriting
- f investment advice concerning one or more financial instruments (EU Directive of 2007, requires this to be a licenced core service)
- g foreign exchange services where these are connected with the provision of investment services

Non-core services may be outsourced to the third parties.

### CIF minimum share capital and application fees

The Act allows for the establishment of three types of investment services companies. These are briefly described below:

- *type 1*: These investment firms are authorised to send, receive and execute orders related to financial instruments on behalf of clients. They are not permitted to hold or control clients' assets, deal for their own account or underwrite
- *type 2*: These investment services companies are authorised to manage clients' portfolios, in addition to the provision of services granted under type 1. They are not permitted to deal for their own account or underwrite
- *type 3*: These investment services companies are authorised to deal for their own account and underwrite, in addition to the services permitted under type 2

The respective minimum paid-up capital requirements for the three types of licences are C£ 125.000, C£ 150.000 and C£ 600.000, respectively (C£1=€1.74).

Fifty percent of the share capital must be paid into the CIF's bank account in Cyprus at the time of the submission of the application. The remainder shall be paid into the CIF's bank account in Cyprus at the time before the licence is actually issued (when notified by CySEC).

The application fee is C£ 3.000.

### Taxation of CIF

CIFs are subject to Cypriot corporate tax like any other Cyprus company. This translates to the following basic highlights:

- unified corporate tax rate of 10% for both international and local business enterprises
- exemption of profits from the disposal of securities
- dividend income is exempt in most cases
- no withholding tax on payments of dividend, interest and royalties to non-residents
- capital gains realised on immovable property held outside Cyprus (or on shares in companies owning such property) are outside the scope of capital gains tax

### Procedure for the granting of a CIF authorisation

The business objective of CIF should be the provision of those investment and non-core investment services for which it has received a licence by the CySEC.

CIFs must be licenced by the CySEC, which is the relevant regulatory and supervisory authority. In this respect, a written application to the 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 Articles of Association such as they are expected to be formulated after the granting of the CIF authorisation
- c) an 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) a draft of the internal regulations (operations manual), depending on the investment and non-core services which the company proposes to provide
- e) a draft organisational structure of the applicant company
- f) a description of the applicant's computer network and electronic infrastructure
- g) a draft regulation, in accordance with acceptable practices, for the prevention of the legalisation of the proceeds of criminal activities

The 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% or more) are legal entities, then the CySEC will also require the details for all natural persons - ultimate beneficial shareholders.

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

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

When CySEC is 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
- main shareholders, managerial staff and internal auditors are called for personal interviews with the President of the CySEC

### Criteria for successful application

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

- the minimum capital required under the Act
- 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
- at least two experienced and reliable persons\* to manage its business, and that the said persons are capable to exercise their duties. One of these two executives should be employed by the company on a full-time basis and live in Cyprus. They both should be accessible and available to appear before the Commission with reasonable notice

\* “Experienced and reliable persons” to be appointed as Directors of the 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 our circumstances
- fully-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
  - all executive employees ie Cyprus based General Manager, heads of the core services departments and internal auditor, must possess relevant professional competence certificates from the Ministry of Finance of the Cyprus Republic. The CIF has an 18-month

period subsequent to the issue of the licence to comply with the above requirement

- 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

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



### What we can do

We are leaders in Cyprus in this sector and help clients in obtaining a CIF authorisation, including the following areas:

- the preparation and the ongoing administration of the application for obtaining the CIF authorisation
- the design and implementation of an appropriate corporate and organisational structure
- the preparation of the internal operations manual placing emphasis on the appropriate control mechanism that should be in place
- the preparation of the Operations Manual, Internal Audit Manual and Anti Money Laundering Procedures Manual
- the outsourcing or assistance with selected non-core functions of the company (accounting and internal audit functions, IT etc)
- the assistance in the selection of the appropriate software acceptable by the authorities
- the provision of external tax and audit services

## List of licensed CIF

- 3D Global Financial Services Ltd \*
- Alfa Capital Holdings (Cyprus) Ltd \*
- Alpinex Financial Services (Cyprus) Ltd
- APL Financial Services (Overseas) Ltd
- Argonaftis Capital Management (Overseas) Ltd
- Argus Stockbrokers Ltd
- Atlantic Securities Ltd
- Aton International 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
- Egnatia Financial Services (Cyprus) Ltd
- Ethelity Concept Finance Ltd
- EVU Management 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
- Helios Trust Management (Cyprus) Ltd
- Hellenic Bank (Investments) Ltd
- ICFI (Cyprus) Ltd
- IKOS CIF Ltd
- Interfin Trade (Overseas) Ltd \*
- J&T Financial Services Ltd
- KAB Strategy (Cyprus) Ltd
- Laiki Brokerage Ltd
- Laiki Investments (Fin.Serv.) Public Company Ltd
- MDM Investments Ltd \*
- Mega Equity Securities and Fin.Services Public Ltd
- MeritKapital Ltd
- Metropol (Cyprus) Ltd
- Nikitas Brokerage Ltd \*
- NKB Investments Ltd \*
- Olma Financial Services Ltd \*
- Otkritie (Cyprus) Ltd \*
- P.C.M. Advisers Ltd
- Pasternak Holdings Ltd
- Renaissance Capital Investments (Cyprus) Ltd \*
- Renaissance Financial Services Ltd \*
- Renaissance Securities (Cyprus) Ltd \*
- Reserve Invest (Cyprus) Ltd \*
- RMG Holdings Ltd
- S.L. 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
- Troylos Kypriaki Etairia Parohis Ependitikon Ypiresion Ltd
- U.F.G.I.S. Capital Management Ltd \*
- U.F.G.I.S. Structured Holdings Ltd \*
- U.F.G.I.S. Trading Ltd \*
- UBS Advisory Services Ltd
- Veles International Ltd \*
- Windsor Brokers Ltd
- XS Capital Securities & Financial Services Ltd \*

*\*belonging to Russian interests*

### Our recent publications and newsletters:

- Oneworld: Our Profile
- Cyprus: For Investments and Doing Business
- Cyprus: Holding Companies
- Cyprus: International Trusts
- Cyprus: Re-domiciliation of Foreign Companies in Cyprus
- Cyprus: Outsourcing Services
- Cyprus ICIS - A Flexible Fund Scheme

The above publications can also be downloaded from our website  
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