Cyprus
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Cyprus

Brief Description of Jurisdiction

Location

Cyprus is an island in the north-eastern basin of the Mediterranean Sea, at the crossroads of Europe, Asia and Africa. Ideally located to serve three continents, it represents a strategic hub for business activities in the region. Throughout the centuries, Cyprus has been a meeting place of civilizations and cultures.

Climate

Cyprus enjoys a Mediterranean climate with long dry summers from mid-May to mid-October and abundant sunshine throughout the year. Variations in temperature and rainfall are governed by altitude and, to a lesser extent, distance from the coast.

State Structure

Cyprus became an independent Republic in 1960, adopting a governmental structure modelled on Western democracies. The head of state is the President of the Republic, elected by universal suffrage for a five-year term of office. The Council of Ministers, appointed by the President, constitutes the main executive body of the Republic. Cyprus has an efficient civil service, with highly trained personnel, a considerable percentage of which holds academic qualifications.

Legislative power rests with the House of Representatives, elected for a five-year term. A multi-party system is in operation, while the electoral system is based on proportional representation.
Infrastructure

Cyprus is well connected via sea, air and telecommunications. Due to its advanced telecommunications network and the superb regional and global connectivity on offer, the island is considered as one of the most important telecommunication hubs in the Eastern Mediterranean and the Middle East region. This is also enhanced by an extensive submarine fibre optic cable network and access to major satellite systems.

In addition, Cyprus’ role as a regional commercial and business centre, coupled with the increasing tourist traffic, has led to the development of a wide network of air-routes offering excellent connections with Europe, Africa, and Asia. The country has two international airports which are situated near Larnaca and Paphos. The newly built Larnaca airport operated for the first time in November 2009 while the Paphos airport was renovated during the same year.

The multi-purpose ports of Limassol and Larnaca are the country’s main sea gateways for seaborne cargo and passenger traffic. Both ports have become important regional warehouse and distribution centres.

International Relations

Cyprus is a member of the European Union, the United Nations, the Council of Europe, the World Trade Organization, the World Bank, the Commonwealth, and the International Monetary Fund. Moreover, Cyprus is represented through diplomatic missions in over 30 countries and has particularly good relations with the Middle East region, the Mediterranean countries, as well as other developing countries.

Education

Cyprus currently has the highest percentage of citizens of working age who have higher-level education in the EU at 30% which is ahead of Finland’s 29.5%.

In addition, 47% of its population aged 25–34 have tertiary education, which is the highest in the EU.

Economy

The Cyprus economy is characterised by robustness and macroeconomic stability which is evidenced by the favourable evaluations and comments of the European Commission, the International Monetary Fund and other international organizations.

The economy of Cyprus is based on free enterprise, with most economic activity taking place in the private sector.

The service sector, which dominates the Cypriot economy, accounts for about half of employment and almost two-thirds of its GDP.
In 2014 the average rate of inflation was -0.2% and the unemployment rate 17%. The standard of living is relatively high with estimated annual income per capita for 2013 of US$24,500. The Cyprus economy recorded real GDP growth of about -2.3% in 2014.

In March 2013 the economy of Cyprus faced serious problems due to the insolvent position of some of its banks, caused primarily by the haircut of Greek debt, and by non-performing loans mainly in the real estate sector. A tough bail-in solution was applied to the two largest local banks, leading to uninsured depositors losing their deposits. Since then, Cyprus has entered into a loan agreement with the European Central Bank and the IMF, bringing back stability. This, together with the discovery of large quantities of natural gas in the exclusive economic zone of Cyprus, offer hope that the economy of Cyprus will soon recover from its problems.

During 2014 the Cypriot economy stabilised further. On the local front, the Government’s commitment to implement fiscal, structural and banking sector reforms seems to be paying off. This is evident from positive reviews by the Troika and the ability of Cyprus to raise fund from the financial markets. Restoration of confidence and liquidity in the banking sector remain key for the continuing recovery of the economy.

It is worth noting that throughout and despite the problematic period since March 2013, the Cyprus government has strongly maintained its policies for retaining, and even strengthening, Cyprus as an attractive location for international business.

Business Environment

There are many elements that contribute to making Cyprus an attractive environment for doing business. These include the strategic location, the sophisticated infrastructure, the highly-educated workforce, the favourable tax system, and the modern banking and insurance networks. All these, coupled with the comparatively low operating costs, the high standard of living and the countless other lifestyle advantages on offer, make Cyprus the perfect place for today’s investors and businesspeople.

Favourable tax system

The tax system of Cyprus fully conforms to EU directives and codes of conduct and with the OECD to eliminate ‘harmful tax practices’.

Cyprus is not a tax haven. It has strict rules in relation
to accounting, audit and tax compliance and is implementing rigorous anti-money laundering measures. International business prepared to accept and comply with these requirements may derive significant benefits in terms of overall reduction of the tax burden.

Cyprus offers a range of tax advantages to companies conducting business on the island. Such advantages derive from the country’s favourable legislation as well as from the wide network of double taxation treaties. In brief, the main provisions of corporate taxation are:

- **Corporate Tax**: all companies are subject to a uniform tax rate of 12.5%, the lowest tax rate in the European Union;
- **Personal Income Tax**: based on the Eurostat’s statistics Cyprus does not only exhibit the lowest corporate tax rate, but also one of the lowest top statutory personal income tax rate at 35%;
- **Double taxation agreements**: Cyprus has developed a wide network of Double Tax Agreements with over 46 countries, ensuring that the same income is not taxed twice;
- **Special tax treatment**: Cyprus is considered as one of the most competitive shipping centres in the world in terms of registration fees and taxes;
- **Value Added Tax**: Value added tax rate is imposed on the supplies of goods and services as well as on the imports to Cyprus. The standard rate of 19% applies to Cyprus

Benefits of the Republic of Cyprus as the World’s Business and Financial Center

Cyprus has a number of comparative advantages that have contributed towards the island becoming an important international business and shipping centre:

- EU and European Monetary union Member State;
- Strategic geographical location at the crossroad of three continents – ideal for expansion in new markets;
- Broad range and international quality of financial and business services - legal, tax, accounting, investment and brokerage;
- An active Stock Exchange and robust Securities and Exchange Commission;
- Highly educated, qualified and multilingual talent;
- Stable and pleasant business environment, accompanied by simple administrative procedures;
- Low set up and operating costs;
- Advanced transport and telecommunications network;
- Renown international shipping centre;
- Simple, low taxation
Actual Data of the Republic of Cyprus

**Official Name:** The Republic of Cyprus

**Capital:** Nicosia (Lefkosia)

**European Union:** Member since 1st May 2004

**Time zone:** GMT +2 (GMT +3 during daylight saving time)

**Location:** Cyprus is located in the extreme northeast corner of the Mediterranean, at the crossroads of Europe, Asia and Africa. The island lies 71 km south of Turkey, 105 km west of Syria, and some 800 km east of Greece

**Area:** 9,251 sq. km

**Climate:** Mediterranean climate, with long, warm, dry summers from May to October and mild winters with occasional rain, lasting from December to February

**Average summer temperature:** 34°C

**Average winter temperature:** 13°C

**Population:** 1 194 291

**Religions:** Greek Orthodox 78%, Muslim 18%, other (includes Maronite and Armenian Apostolic) 4%

**Ethnic Composition:** Greek Cypriot Community 71.8%, Turkish Cypriot Community 9.5%, Foreign Residents 18.7% (data refers to the whole island, end of 2011)

**Languages:** Greek (official), Turkish (official), English is also widely spoken

**Literacy:** 97.6%

**Median Age:** 34.8 years

**International membership:** European Union, United Nations, Council of Europe, Commonwealth, World Bank and International Monetary Fund

**Form of State:** Presidential Republic

**Head of State:** Mr Nicos Anastasiades

**Legal System:** The Cypriot legal system is based on English common law, with civil modifications

**Juridical Branch:** The Supreme Court of the Republic, the Assize Courts and District Courts

**Economic Sectors:** Tourism, financial services, real estate, shipping, industry

**Public Debt as a Percentage of GDP:** 71.6%

**Fiscal Deficit as a Percentage of GDP:** 6.3%

**Labour Force:** 376 000

**Labour Costs:** 116.64 index points (est. November 2013)

**Unemployment:** 16.7% (February 2014)

**Main Trading Partners:** UK, Greece, Germany, Italy, Israel, France, China

**Exports (euro):** 1.406 billion

**Imports (euro):** 6.261 billion

**Trade Balance (euro):** - 4.85 billion

**Sovereign Rating:** B- (Fitch 2015-04-24), B3 (Stable) (Moody's 2014-11-14)

**Fiscal Year:** Calendar year
Regulatory Framework

Cyprus’ legal framework is particularly strong, due in part to mandatory compliance with European Union regulations. The legislation governing Cyprus’ financial services sector underpins the island’s ambition to become a leading international financial centre. Cyber law is based on English common law and was amended in recent years to meet European Union requirements.

Cyprus has a well-functioning legal system. Having been a British colony, Cyprus law is based on English common law and was amended in recent years to meet European Union requirements. Offering foreign business a familiar and reliable framework within which to operate, the island’s legal and regulatory system is today considered to be one of the most favourable in Europe, whilst at the same time being fully compliant with the EU, the Financial Action Task Force on Money Laundering (FATF), the Organization for Economic Co-operation and Development (OECD) and the Financial Stability Forum.

The legislative framework for the Cypriot financial services sector includes the following laws:

- Directive 2007/64/EC on Payment Services in the Internal Market (Payment Services Directive)
  - The Payment Services Law 2009 to 2010
  - The Electronic Money Law 2012
  - The Payment Institutions and Access to Payment Systems Directive of 2009
  - The Directive for the Regulation of Money Transfer Services 659 of 2003
  - Directives on the Provision of Intraday credit
  - Regulation (EC) No. 1781/2006 on information on the payer accompanying transfers of funds
  - Recommendations for the security of internet payments
  - The Companies Law
  - Cooperative Companies Law available in Greek only)
  - Banking Law of 1997 (available in Greek only)
The Payment Services Law 2009

The Payment Services Law 2009 implements the European Payment Services Directive, 2007/64/EC. It establishes the regime for payment institutions and electronic money institutions that may provide payment services with the prior authorisation from the relevant authority, and designates the Central Bank of Cyprus as the competent authority responsible for the authorisation and prudential supervision of payment institutions.

This Law applies to payment services provided within the Republic of Cyprus and payment services provided within another member state by a payment service provider for whom the Republic of Cyprus is the home member state.

The Electronic Money Law 2012

The Electronic Money Law of 2012 transposes into Cyprus legislation the EU “Directive 2009/110 on the taking up, pursuit and prudential supervision of the business of Electronic Money Institutions”.

The Law establishes the legal framework for services regarding pre-paid electronic payment products. It regulates the issuance of electronic money in the Republic of Cyprus, in another EU member state or in a third country by a natural person residing in the Republic of Cyprus or by a legal person incorporated in the Republic of Cyprus as well as the licensing and the prudential supervision of electronic money institutions.

The Prevention and Suppression of Money Laundering Activities Law 2007

Cyprus has put in place suitable mechanisms for the prevention and suppression of money laundering and terrorist financing activities. In 2007 the House of Representatives enacted ‘The Prevention and Suppression of Money Laundering Activities Law’ by which the former Laws on the Prevention and Suppression of Money Laundering Activities of 1996-2004 were consolidated, revised and repealed. Under the current Law, which came into force on 1 January 2008, the Cyprus legislation has been harmonised with the Third European Union Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

The Law was amended in 2010 and then again on 27/6/12 and 21/12/12 with Laws 80(I)/2012 and 192(I)/2012 respectively and in 2013 with Law 101(I)/2013. The amendment of June 27, 2012 concerned the addition of electronic money institutions.

The main purpose of the Law is to define and criminalise the laundering of the proceeds generated from all serious criminal offences and provide for the confiscation of such proceeds with the aim to deprive criminals of their profits.

The law obliges all individuals and legal entities that perform financial and other business activities, to protect themselves, their companies and the financial system of Cyprus from money laundering, by setting standard procedures. These procedures aim at identifying and reporting suspicious transactions,
as well as applying the ‘know-your-client’ principle which requires the entire industry to adhere to strict procedures for maintaining records.

Under the PSMLA, which came into force on 1 January 2008, the Cyprus legislation was harmonised with the Third European Union Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (Directive 2005/60/EC).

Directives of the Central Bank of Cyprus (CBC) and the Co-operative Societies Supervision and Development Authority (CSSDA)

The Central Bank and the CSSDA may issue directives either separately and/or jointly for regulating any issues under the PSL and/or Regulation (EC) No. 924/2009 which must or needs to be regulated.

Under section 16 of the Central Bank of Cyprus Laws of 2002-2007, the Board of Directors of the Central Bank of Cyprus (CBC) may issue directives for the purpose of achieving its objectives and tasks laid down in sections 5 and 6 of the law respectively.

The CBC may by directives regulate the access and terms of participation of payment service providers in payment systems operating within the Republic of Cyprus, prescribe an overall limit for the value of payment transactions etc.

The Directive for the Regulation of Money Transfer Services 2003

The Directive regulates the provision of money transfer services from and to the Republic of Cyprus and sets out the conditions for the granting of a licence by the Central Bank for the establishment and operation of a business to provide money transfer services.


The Central Bank of Cyprus’ Directive to Credit Institutions 2013 (Fourth Edition) is issued to all credit institutions in accordance with Article 59(4) of the Prevention and Suppression of Money Laundering Activities Laws of 2007 to 2013 (the PSMLA law), and aims at laying down the specific policy, procedures and control systems that all credit institutions should implement for the effective prevention of money laundering and terrorist financing so as to achieve full compliance with the requirements of the PSMLA law. It is emphasized that the PSMLA law explicitly states that Directives are binding and compulsory to all persons to whom they are addressed.

Furthermore, the Law assigns to the supervisory authorities, including the Central Bank of Cyprus, the duty of monitoring, evaluating and supervising the implementation of the Law and of the Directives issued to the supervised entities.
Authorities in charge of the control and supervision

Financial institutions are regulated and supervised by four authorities in Cyprus:

- The **Central Bank of Cyprus** (CBC), which is responsible for the supervision of commercial banks;
- The **Cooperative Societies Supervision and Development Authority** (CSSDA), supervising the cooperative credit institutions;
- The Superintendent for Insurance Control (SI); and
- The **Cyprus Securities and Exchange Commission** (CySEC)

Central Bank of Cyprus

In its role as the regulator of the banking industry in Cyprus the Central Bank’s purpose is to regulate and supervise banks, payment services, electronic payment institutions and other relevant matters as well as to prevent and suppress money laundering activities.

The governing body of the Central Bank is its Board of Directors which consists of the Governor, the Deputy Governor and five directors, appointed by the Council of Ministers. Nevertheless, the Central Bank and its Board of Directors are independent from the government of Cyprus and its independence is safeguarded in both the Constitution and the Central Bank of Cyprus Law.

The Central Bank of Cyprus is the supervisory authority responsible for the authorisation and supervision of payment institutions and electronic money institutions.

Under subsection (1) of section 83 of the PSL, the Central Bank of Cyprus is the supervisory authority for the supervision and application of the provisions of the PSL (Parts IV to IX) in respect of:

- payment services provided in the Republic of Cyprus by banks, within the meaning ascribed to this term by section 2 of the Banking Laws of 1997 to 2008;
- payment services provided in the Republic of Cyprus by a payment institution authorised by the Central Bank;
- payment services provided in the Republic of Cyprus by an electronic money institution authorised by the Central Bank;
- payment services provided in the Republic of Cyprus via a branch or agent, either by a bank or by a payment institution authorised in another member state;
- payment services provided in the Republic of Cyprus via a branch or agent by an electronic money institution which is not a cooperative institution and which is authorised in another member state;
- payment services provided in another member state under the freedom to provide services, either by a bank or a payment institution or by an electronic money institution authorised by the Central Bank.

The Central Bank’s purpose is to regulate and supervise banks, payment services, electronic payment institutions.
The Co-operative Societies Supervision and Development Authority

The Co-operative Societies Supervision and Development Authority (CSSDA) is the competent authority in relation to a legal person established by virtue of the Cooperative Societies Law and in relation to a legal person established in a country other than the Republic of Cyprus by virtue of a law corresponding to the Cooperative Societies Laws.

In particular, the CSSDA is the supervisory authority for the supervision and application of provisions of the relevant laws in respect of:

- payment services provided in the Republic of Cyprus by a cooperative credit institution authorised by the Commissioner of the CSSDA;
- payment services provided in the Republic of Cyprus by an electronic money institution authorised by the Commissioner of the CSSDA;
- payment services provided in the Republic of Cyprus via a branch or agent, by a cooperative credit institution authorised in another member state;
- payment services provided in another member state under the freedom to provide services, by a cooperative credit institution or by an electronic money institution authorised by the Commissioner of the CSSDA

The Cooperative Societies Laws govern Cooperative Societies, which are not-for-profit organisations that provide their services such as the deposit-taking and granting credit facilities within specific local communities.

The supervisory authorities may carry out on-the-spot examinations at the payment service provider, as well as at every agent or branch providing payment services under the responsibility of the provider or at any external entity to which payment service activities are outsourced.

Authorisation of Payment Institution by Competent Authorities

As from the 27th of November 2009, the provision of payment services in the Republic of Cyprus is regulated by the Payment Services Law of 2009 (as subsequently amended), and by the Payment Institutions and Access to Payment Systems Directive of 2009, which was issued by the Central Bank of Cyprus by virtue of the powers vested in it under the provisions of these Laws.

A payment institution may provide payment services only if it holds a prior authorisation from the Central Bank of Cyprus in accordance with provisions of the PSL.

The following persons may provide payment services in the Republic of Cyprus without obtaining the prior approval of the CBC:
- Banks licensed by the CBC or by a competent supervisory authority of another EU member state
- Cooperative societies which have been licensed by the Authority for the Supervision and Development of Cooperative Societies or by the competent supervisory authorities of other EU member states
- Electronic money institutions which have been licensed by the CBC or by competent supervisory authorities of other E.U. member states
- Post office giro institutions which are entitled under national legislation to provide payment services
- The European Central Bank and national central banks when not acting in their capacity as monetary or other public authorities
- Member states or regional or local authorities when not acting in their capacity as public authorities
- Payment institutions that have been granted and maintain a valid authorisation to operate by the competent supervisory authorities of other EU member states. These institutions may either exercise the right of establishment or the right to provide services on a cross-border basis, provided that the competent authorities of the home member state submit to the CBC a notification in the manner prescribed by Directive 2009/64/EC

Competent Authority and its Legal Basis

In accordance with the Payment Services Law of 2009 (as subsequently amended), and the Payment Institutions and Access to Payment Systems Directive of 2009, the Central Bank of Cyprus is designated as the competent authority responsible for:

- a) granting of authorisation to provide payment services to companies which are registered and have their head office in the Republic of Cyprus;
- b) the issuance of rules concerning the access of payment service providers to payment systems operating in the Republic of Cyprus, as well as the terms and conditions under which they may participate therein;
- c) the supervision and monitoring of compliance with the provisions of the Payment Services Laws of 2009 and 2010 concerning:
  - the authorisation of payment institutions, and
  - the transparency of the conditions, the terms, the rights and obligations governing payment services
d) the investigation of complaints submitted by payment services users or by other interested parties, as well as dispute resolution concerning the rights and obligations stemming from these Laws, and

e) the revocation or the suspension of the authorisation of a payment institution if it has been ascertained that it obtained its authorisation through false representations, or other irregular means. Moreover, the Central Bank of Cyprus has the power to impose administrative penalties on payment institutions, if it has been ascertained that they contravened any of the provisions of the relevant legal framework.

Definition of the Payment Institution and Authorized Activities

Only the persons referred to in subsection (2) of section 4 of the PSL are entitled to provide or appear to provide payment services within the Republic of Cyprus as their regular occupation or business activity, namely:

- Banks within the meaning given to this term by section 2 of the Banking Law;
- Banks licensed by the competent authorities of other member states;
- Cooperative credit institutions within the meaning given to this term by section 2 of the Cooperative Companies Law;
- Electronic money institutions within the meaning given to this term by section 2 of the Electronic Money Institutions Law of 2004, which have been licensed by the Central Bank or by the CSSDA or by the competent authorities of other member states;
- Institutions which are entitled under legislation to provide postal payment services;
- Payment institutions within the meaning of this Law;
- The European Central Bank and national central banks when not acting in their capacity as monetary or other public authorities;
- Member states or regional or local authorities thereof when not acting in their capacity of public authorities

In the Payment Services Law 2009 “payment institution” means a legal person that has been granted and maintains an authorisation by the Central Bank or by the competent authorities of another member state to provide payment services listed in the Annex to the PSL.

List of Payment Services (Annex to the PSL)

Payment institutions are entitled to provide credit related to the provision of the payment services referred to in points 4, 5 or 7 on the list of payment services above (Annex to the PSL) provided that any conditions prescribed by directive of the Central Bank are met.
Payment institutions may engage in the following activities:

1. Services enabling cash to be placed on a payment account as well as all the operations required for operating a payment account.

2. Services enabling cash withdrawals from a payment account as well as all the operations required for operating a payment account.

3. Execution of payment transactions, including transfers of funds on a payment account with the user’s payment service provider or with another payment service provider:
   - a. execution of direct debits, including one-off direct debits,
   - b. execution of payment transactions through a payment card or a similar device,
   - c. execution of credit transfers, including standing orders

4. Execution of payment transactions where the funds are covered by a credit line for a payment service user:
   - a. execution of direct debits, including one-off direct debits,
   - b. execution of payment transactions through a payment card or a similar device,
   - c. execution of credit transfers, including standing orders

5. Issuing and / or acquiring of payment instruments.

6. Money remittance.

7. Execution of payment transactions where the consent of the payer to execute a payment transaction is given by means of any telecommunications, digital or IT device and the payment is made to the telecommunication, IT system or network operator, acting only as an intermediary between the payment service user and the supplier of the goods and services.

Payment institutions are entitled to provide credit related to the provision of the payment services referred to in points 4, 5 or 7 on the list of payment services above (Annex to the PSL) provided that any conditions prescribed by directive of the Central Bank are met.

A payment institution may grant credit only if the following conditions are met:

- the credit must be ancillary and granted exclusively in connection with the execution of a payment transaction;
- when the payment service, in connection with which the credit is granted, is provided in another Member State, such credit shall be repaid within a short period which shall in no case exceed 12 months;
- such credit shall not be granted from the funds received or held for the purpose of executing a payment transaction, and
- the own funds of the payment institution shall at all times and to the satisfaction of the CBC be appropriate in view of the overall amount of credit granted

Payment institutions are entitled to provide operational and closely related ancillary services that facilitate the payment service provided. The Central Bank may issue directives in this respect.

Payment institutions, apart from the provision of payment services, are entitled to engage in commercial business, including the operation of payment systems, which must comply with the directive issued by the Central Bank for harmonisation with Article 28 of Directive 2007/64/EC (Access to payment systems).

The PSL does not apply to the following activities among others:
1. Payment transactions consisting of the non-professional cash collection and delivery within the framework of a non-profit or charitable activity;

2. Services where cash is provided:
   - a. by the payee to the payer,
   - b. as part of a payment transaction for the purchase of goods or services, and
   - c. following an explicit request by the payment service user just before the execution of the said payment transaction

3. Money exchange business, that is, cash-to-cash operations, where the funds are not held on a payment account;

4. Payment transactions based on any of the following documents drawn on the payment service provider with a view to placing funds at the disposal of the payee:
   - a. cheques, bills of exchange and drafts provided that this exception shall cover cheques presented by a banker to a banker by electronic means,
   - b. paper-based vouchers;
   - c. paper-based traveller's cheques;
   - d. paper-based postal money orders within the meaning of the constitution and any agreements and regulations of the Universal Postal Union

5. Services based on instruments that can be used to acquire goods or services only:
   - a. in the premises of the issuer, or
   - b. under a commercial agreement with the issuer, either within a limited network of service providers or for a limited range of goods or services

6. Payment transactions executed by means of any telecommunication, digital or IT device, on condition that:
   - a. the goods or services purchased are delivered to and are to be used through a telecommunication, digital or IT device, and
   - b. the network provider does not act only as an intermediary between the payment service user and the supplier of the goods or services

7. Payment transactions carried out between payment service providers, their agents or branches for their own account;

8. Payment transactions between a parent undertaking and its subsidiary or between subsidiaries of the same parent undertaking, without any intermediary intervention by a person other than an undertaking belonging to the same group;

9. Cash withdrawal services provided by means of automated teller machines on condition that the persons providing them:
   - a. act on behalf of one or more card issuers,
   - b. are not a party to the framework contract with the customer withdrawing money from a payment account, and
   - c. do not conduct other payment services

Where the applicant or an already authorised payment institution intends to provide any payment service in parallel with other business activities, the Central Bank may require the establishment of a separate legal entity for the payment service activities, if the other business activities of the payment institution impair or are likely to impair either the financial soundness of the payment institution or the ability of the Central Bank to monitor the payment institution’s compliance with the PSL and the directives issued thereunder.

Payment institutions shall not be entitled to:

- Engage in the business of accepting depos-
its or other repayable funds within the meaning given to these terms by sections 2 and 3(1) of the Banking Law or sections 2 and 41A(1) of the Cooperative Credit Companies Law; and

- Maintain payment accounts which are not used exclusively for payment transactions connected with the provision of payment services provided that the acceptance of any funds from payment service users in connection with the provision of payment services shall not constitute acceptance of either a deposit or other repayable funds within the meaning of the bullet point above or of electronic money within the meaning of the Electronic Money Institutions Law of 2004.

### General Criteria for Obtaining Authorization

For the purpose of obtaining an authorisation as a payment institution, an interested person has to submit an application to the Central Bank, together with information that the Central Bank may prescribe by directive.

An authorisation may be granted only to companies which fulfil the following conditions:

- they have been incorporated in the Republic of Cyprus; and
- they have their head offices in the Republic of Cyprus

The Central Bank shall grant an authorisation only if the payment institution has robust governance arrangements for the payment service business, which include:

- a clear organisational structure with well-defined, transparent and consistent lines of responsibility,
- effective procedures to identify, manage, monitor and report the risks to which it is exposed, and
- adequate internal control mechanisms, including appropriate administrative and accounting procedures

Those arrangements, procedures and mechanisms must be comprehensive and proportionate to the nature, scale and complexity of the payment services provided by the payment institution.

Where close links as defined in section 2 of the Banking Law (available in Greek only) exist between the payment institution and other natural or legal persons, the Central Bank will grant an authorisation only if those links do not prevent the effective exercise of its supervisory functions.

The Central Bank will not grant a payment institution authorisation unless it is fully satisfied that all of the conditions prescribed by the PSL as well as those in any directives issued by virtue of the PSL are met.

The Central Bank will refuse to grant an authorisation if it is not satisfied as to the suitability of the persons:

- who directly or indirectly exercise control in relation thereto, within the meaning given to the term “control” in section 2 of the Banking Law, or
- who are partners in a partnership applying for authorisation for the operation of a payment institution

The Central Bank may prescribe additional requirements for the granting of a payment institution authorisation, may prescribe, specify or clarify the obligations of the payment institution and of the
Requirements for Capital of Payment Institution

**Initial Capital**

The company applying for a payment institution authorisation must have an initial capital of at least:

- EUR 20,000, where it intends to provide money remittance service;
- EUR 50,000, where it intends to provide the payment service listed in point 7 on the list of permitted payment services above (the Annex to the PSL); and
- EUR 125,000, where it intends to provide any of the payment services listed in points 1 to 5 of the list of permitted payment services above (the Annex to the PSL)

Under section 9 of the Payment Services Law of 2009, the term “initial capital” is deemed to include:

- the issued and paid up capital plus share premium accounts but excluding cumulative preferential shares;
- reserves, excluding revaluation reserves;
- profits and losses brought forward as a result of the application of the final profits or losses of the previous year

The Central Bank may by directive prescribe the composition of the initial capital.

**Own Funds**

The term “own funds” has the meaning given to it in paragraphs 3 to 8 and 10 of Unit A of the Central Bank of Cyprus Directive to banks for the calculation of capital requirements and large exposures of 2006 and 2007 as it may further be amended or replaced; the term “bank” in those provisions, or any grammatical variation thereof, shall be deemed to refer to the payment institution.

The payment institution must maintain, at all times during its operation, own funds the composition of which is prescribed by the CBC by directive.

Own funds shall exclude:

- participations in other undertakings;
- every item included in the own funds of a person which is obliged to maintain own funds during its operations, as long as that person and the payment institution belong to the same group, and
• every item which is intended for use in a trading or business activity other than the provision of payment services

The CBC will determine for each payment institution the methods of calculating the minimum level of own funds (methods A, B or C described in section 5, subsection 4 of the Payment Institutions and Access to Payment Systems Directive of 2009) by directive which will constitute an individual administrative act and which will be communicated by the CBC to the said payment institution.

The Central Bank of Cyprus may amend the directive for the purpose of requiring the payment institution to maintain own funds higher or lower by up to 20% than the minimum level of own funds which would result from the application of the method determined in each case, following an evaluation of the risk-management processes, risk loss data base and internal control mechanisms of the payment institution.

The CBC may exempt from the requirement to apply a method for the calculation of a minimum level of own funds a payment institution which is included in the consolidated supervision of the bank or the cooperative credit company which is its parent company. The Central Bank may grant this exemption by directive which will constitute an individual administrative act and which will be communicated by the Central Bank to the said payment institution.

The payment institution’s own funds may not fall below the level of the initial capital as provided for under subsection (1) of section 9 of the PSL.

Application for Authorisation as Payment Institution

List of documents required

Every application for authorisation as a payment institution shall be submitted together with the following:

• a programme of operations, setting out in particular the payment services envisaged;

• a business plan including a forecast budget calculation for the first three financial years which demonstrates that the applicant is able to employ such systems, resources and procedures so as to operate soundly;

• evidence that the applicant holds the required initial capital;

• a description of the measures taken to comply with the safeguarding requirements set out in section 10 of the PSL;

• a description of the applicant’s governance arrangements and internal control mechanisms, including administrative, risk management and accounting procedures, which demonstrates that these governance arrangements and control mechanisms are appropriate and adequate;

• a description of the internal control mechanisms which the applicant has established in order to comply with the requirements of the Prevention and Suppression of Money Laundering Activities Law of 2007 and Regulation (EC) No. 1781/2006 of the European Parliament and of the Council of 15 November 2006 on information on the payer accompanying transfers of funds, as it may further be amended or replaced;
A description of the applicant’s participation in a national or international payment system as well as the applicant’s structural organisation, including, where applicable, a description of the intended outsourcing arrangements and / or use of agents and branches;

- the identity of persons who have, directly or indirectly, control of the applicant within the meaning given to the term “control” by section 2 of the Banking Laws of 1997 to 2009, or who are partners in the applicant partnership, within the meaning of the General and Limited Partnerships and Business Names Law, as well as details on the size of their holdings and evidence of their suitability in view of the need to ensure the sound and prudent management of the payment institution;

A business plan including a forecast budget calculation for the first three financial years

List of forms to be completed by an applicant

Legal persons interested in obtaining an authorisation for providing payment services, must complete and submit to the CBC the following form:

Application for authorisation as a Payment Institution (PSD/Q1)

Applicants are urged to ensure that all required data and documents mentioned above are included in their application before submitting it to the CBC, as incomplete applications will be returned.

Direct and indirect corporate controllers of an applicant as well as the members of the board of directors and the persons who will be responsible for the management of the applicant are required to complete and submit to the CBC one of the following questionnaires, as applicable:

- Questionnaire PSD/Q2 should be completed by legal persons:
  - which have / propose to have direct or indirect control in the applicant (the term «control» has the meaning ascribed to it by section 2 of the Banking Law, 1997 as subsequently amended), or
  - which are partners in an applicant partnership;

- the identity of all directors as well as of the persons responsible for the management of the payment services activities; evidence that they are of good repute and possess appropriate knowledge and experience to perform payment services, in particular a copy of criminal record, a non-bankruptcy report, a description of professional and academic qualifications, of the positions of manager or director that they hold in other legal persons and of their previous employments;

- the identity of auditors;

- the applicant’s memorandum and articles of association;

- the address of the applicant’s head office

The applicant must provide a description of its audit and organisational arrangements it has set up with a view to taking all reasonable steps to protect the interests of the payment service users and to ensure continuity and reliability in the performance of payment services.
within the meaning of the General and Limited Partnerships and Business Names Law

- **Questionnaire PSD/Q3** should be completed by natural persons:
  - who have / propose to have directly or indirectly control in the applicant
  - who are partners in an applicant partnership, within the meaning of the General and Limited Partnerships and Business Names Law and
  - who are directors / proposed directors of the applicant as well as persons who will be responsible for the management of the applicant

A payment institution established in the Republic of Cyprus, intending to provide payment services through an agent and / or to exercise the right of establishment or freedom to provide services in another EU member state and / or to have its operation authorisation extended to cover additional payment services, must complete and submit to the CBC one of the following documents, as applicable:

- **Application PSD/Q4** for the registration of an agent in the public register referred to in section 8 of the Law

Procedure and Time for Consideration of Applications

Within **three months** of receiving a duly completed application for the authorisation of a payment institution, the Central Bank shall issue a decision on the application and shall inform the applicant whether the authorisation has been granted or refused.

The application shall be deemed to have been duly completed only if it contains all the required information and is accompanied by all the information and documents prescribed in subsection (1) of section 7.

A refusal to grant authorisation shall be duly justified.

State fees

Under subsection (1) of section 85 of the PSL, the Central Bank of Cyprus may require payment institutions to refund all expenses incurred for supervision and implementation of Part III of the PSL (Authorisation of Payment Institutions).
Under subsection (2) of section 85, each supervisory authority shall be empowered to require persons under its supervision to pay to it fees in connection with expenses incurred for their supervision and implementation of Parts IV to IX of the PSL and the supervision and implementation of Regulation (EC) No 924/2009 on cross-border payments in the Community.

Appealing against Decision of the Competent Authority

Under Article 23 of the PSD 2007/64/EC, decisions taken by the competent authorities in respect of a payment institution pursuant to the laws, regulations and administrative provisions adopted in accordance with this Directive may be contested before the courts.

Following Receipt of Authorization

A payment institution which has been granted authorisation by the Central Bank of Cyprus will be entered in the Public Register in accordance with section 8 of the Payment Services Law of 2009; the entry will identify the payment services for which the authorisation has been granted, as well as the branches and agents of the payment institution. The register is accessible by electronic means.

Under Part III, section 6, subsection (7) of the PSL, the name of the payment institution, the number and the date of issue of the authorisation, the payment services permitted to be provided as well as any other information that the CBC deems necessary will be recorded on the authorisation.

The CBC may at any time require an authorised payment institution to provide information for the purpose of ascertaining that the payment institution complies with the requirements of Part III of the PSL.

An authorised payment institution has, at all times, an obligation to notify the Central Bank of Cyprus within a reasonable period of any change in the accuracy of the information, the data and the documents submitted by virtue of subsection (1) of section 7 (granting of authorisation) of the PSL.

In the event that a payment institution wishes to extend its authorisation to additional payment services it will have to submit an application to the CBC accompanied by the information, data and documents provided for in subsection (1) of section 7 of the PSL. The CBC will issue a decision regarding the application in accordance with the provisions of Part III of the Law.

Once a payment institution commences operations in Cyprus, it is requested to provide statistics in relation to the payment services provided.
Termination of authorisation to operate

An authorisation granted to a payment institution shall be terminated immediately in the following cases:

- If the payment institution does not make use of its authorisation within 12 months from the date on which the authorisation was granted provided that if the payment institution makes partial use of the authorisation, the authorisation shall cease to be valid for those authorised services not provided
- Where a payment institution expressly renounces the authorisation
- Where a payment institution fails to provide any payment services for a period exceeding six months provided that if the payment institution fails to provide all of the authorised payment services, the authorisation shall cease to be valid for those authorised services not provided

Agency Relationship

Where a payment institution, established in the Republic of Cyprus, wishes to provide payment services via an agent, it will have to apply for the listing of the agent in the register of the authorised payment institutions, their agents and branches established in accordance with section 8 of the PSL.

The application will have to be accompanied by the information prescribed by Central Bank directive.

The Central Bank will not proceed with the registration of an agent unless it is fully satisfied that the information submitted to it is correct and that the agent fulfils the criteria prescribed by Central Bank’s directive.

The application of a payment institution for the listing of an agent in the Register shall include the following:

- the name and address of the agent;
- a description of the internal control mechanisms that will be used by the agent in order to comply with the requirements of the Prevention and Suppression of Money Laundering Activities Law of 2007 and Regulation (EC) No 1781/2006 of the European Parliament and of the Council of 15 November 2006, on information on the payer accompanying transfers of funds, as it may further be amended or replaced, and
- the identity of all directors of the agent and the persons responsible for the management of the payment services activities and evidence that they are fit and proper persons, in particular a copy of criminal record and a non-bankruptcy report

The Central Bank will not proceed to the registration of the agent before consulting with the competent authorities of the host member state taking into account their opinion.

A payment institution will be fully liable and without reservation for the acts and omissions of its agents when they act on behalf of the payment institution.

The Central Bank of Cyprus lists agents of a payment institution in the Public Register on condition that:

- the agent has in place internal control mechanisms that ensure compliance with the requirements of the Prevention and Suppression of Money Laundering Activities Law of 2007 and Regulation (EC) No 1781/2006 of the European Parliament and
Use of the European Passporting Right by Payment Institutions

By exercising the right of establishment or the freedom to provide services, the authorised payment institutions can establish and/or operate payment services business in other member states through passporting. Conversely, by exercising the right of establishment or the freedom to provide services, payment institutions authorised by the competent authorities of other member states are entitled to establish payment services business in the Republic of Cyprus.

A payment institution authorised by the Central Bank of Cyprus, wishing to provide payment services in another member state must notify the CBC of its intention and provide any information the CBC stipulates in a directive that payment services will be provided in another member state either under the freedom of establishment or the freedom to provide services.

For the purposes of exercising the right of establishment and freedom to provide services, a payment institution shall submit the following to the Central Bank of Cyprus:

- the names of those responsible for the management of the branch;
- its organisational structure, and
- the kind of payment services the payment institution intends to provide in the territory of the host member state

The Central Bank will notify the competent authorities of the host member state of the following information within one month of receiving it:

- the name and address of the payment institution,
- the names of persons responsible for the management of the branch and/or agent,
- the payment institution’s organisational structure, and
- the payment services the payment institution intends to provide in the territory of the host member state

A payment institution may not commence the provision of the payment services in the host member state before the aforementioned notification is made.

The Central Bank may prohibit a payment institution from providing or continuing to provide payment services in another member state if:

- there are indications that terrorist financing or money laundering is being attempted or has taken place or has been attempted, in connection with the setting up of the branch, or
- the setting up of the branch could increase the risk of terrorist financing or money laundering

- the employment of the agent could not increase the risk of terrorist financing or money laundering, and
- the agent has directors and persons responsible for the management of the payment services activities who are fit and proper persons

of the Council of 15 November 2006, on information on the payer accompanying transfers of funds, as it may further be amended or replaced;

- there is no indication that, in connection with the proposed employment of the agent, terrorist financing or money laundering is attempted or has taken place or been attempted;
A payment institution that has obtained and maintains an authorisation from competent authorities of a home member state other than the Republic of Cyprus may provide payment services in the Republic of Cyprus either under the freedom of establishment or the freedom to provide services.

Competent authorities of a home member state must notify the CBC of the following information:

- the name and address of the payment institution,
- the names of the persons responsible for the management of the branch and/or agent,
- the payment institution’s organisational structure, and
- the payment services the payment institution intends to provide in the Republic of Cyprus

Provided that the payment institution:

- may not commence providing services in the Republic of Cyprus before the aforementioned communication, and
- may not continue providing services in the Republic of Cyprus through a branch or agent after the withdrawal of registration of the branch or agent from the respective register of the home member state

The CBC may inform competent authorities and request from competent authorities, as the case may be, of a home member state, of a host member state or of a future host member state, any information relating to a payment institution, its agents and branches as well as any third parties to which operational functions are outsourced by the payment institution.

The Central Bank may prohibit a payment institution from providing or continuing to provide payment services in another member state

Outsourcing of Certain Functions to External Contractors

Where a payment institution intends to outsource operational functions of payment services to third parties within or outside the Republic of Cyprus, it will have to inform the Central Bank accordingly. The Central Bank may particularise by directive the meaning of operational functions and prescribe conditions for the outsourcing of these functions.

An operational function is regarded as important if a defect or failure in its performance would materially impair the financial performance or the soundness of the payment institution or the continuity of its payment services or its continuing compliance with the requirements of its licence or its other obligations laid down by the Payment Services Law of 2009.

Outsourcing of important operational functions may not be undertaken in such a way as to impair materially the quality of the payment institution’s internal control and/or the ability of the Central Bank to monitor the payment institution’s compliance with all obligations laid down in the Payment Services Law of 2009.

Any outsourcing of important operational functions must meet the following conditions:

- the outsourcing shall not result in the delegation by senior management of its responsibilities;
- the relationship and obligations of the payment institution towards its payment service users under the PSL 2009 shall not be altered;
- the conditions with which the payment institution is to comply in order to be authorised and remain so in accordance with the PSL 2009 shall not be undermined, and
- none of the other conditions subject to which the payment institution’s authorisation was granted shall be undermined

A payment institution shall be fully liable and without reservation for the acts and omissions of any entity, to which operational functions have been outsourced, in the exercise of these functions.

Accounting, Reporting and Audit Requirements


In preparation and audit of financial statements all payment institutions are subject to the provisions of sections 142(1) – (3) and 143(1) – (4) of the Companies Law (see the relevant section below).

A payment institution must draw up financial statements as the Central Bank may prescribe by directive provided that for the supervision of payment institutions, the Central Bank may prescribe, specify and determine by directive every issue which is relevant to the preparation of financial statements both as regards payment services as well as any other business activities carried out by the payment institution.

Every payment institution shall submit to the Central Bank of Cyprus separate accounting information for the payment services referred to in the Annex of the Payment Services Law of 2009 and for the activities referred to in subparagraphs (1) and (2) of section 12 of the PSL. For all payment institutions that, under the provisions of Cyprus and Community law, are required to have their financial statements audited by auditors, such accounting information shall be subject to such audit.

Payment institutions shall be required to maintain records for a period of at least five years.

Each payment service provider shall, when so requested by the competent supervisory authority, make available for examination its liquid and other assets, books or records, and any other documents.

Safeguarding Requirements

Payment institutions must safeguard the funds which they receive from payment service users or via another payment service provider for the execution of payment transactions. Where a portion of the funds that the payment institution receives is to be used for future payment transactions and the remaining amount is to be used for non-payment services, that portion of the funds to be used for future payment transactions is subject to the safeguarding requirements under section 10 of the PSL.
Where that portion of funds to be used for future payment transactions is variable or not known in advance, the Central Bank may prescribe by directive that:

- The relevant payment institution may apply for the approval of the Central Bank for the safeguarding requirements to apply to a representative portion of the funds received by the payment institution, and
- The Central Bank may grant such approval if it is satisfied that such a representative portion can be reasonably estimated on the basis of historical data.

The CBC may by directive:

- Prescribe the method of calculating the funds that are required to be safeguarded;
- Limit the requirement for safeguarding by imposing a maximum limit per payment service user on funds that are not required to be safeguarded;
- Prescribe safeguarding methods;
- Determine that in the event that a payment institution is dissolved and / or liquidated, the funds that are required to be safeguarded must be segregated from the payment institution’s estate and shall be distributed to the beneficiaries thereof; and
- Exempt from the safeguarding requirements payment institutions which are not engaged in any business activities other than the provision of payment services.

The funds received by a payment institution from the payment service users or through another payment service provider for the execution of payment transactions shall not be commingled at any time with the funds of any other natural or legal person; where such funds are still held by the payment institution and not yet delivered to the payee or transferred to another payment service provider by the end of the business day following the day when the funds have been received, they shall be deposited in a separate account in a credit institution. The payment institution shall take all necessary measures to ensure that the funds received are legally protected, in the interest of the payment service users, against claims of other creditors of the payment institution, particularly in the case of liquidation or dissolution.

A payment institution comply with the safeguarding requirements of the PSL by one of the following means:

- The funds received by a payment institution from the payment service users or through another payment service provider for the execution of payment transactions shall be covered by an insurance policy or some other comparable guarantee. The insurance policy or other comparable guarantee shall be provided by an insurance company or credit institution not belonging to the same group as the payment institution, for an amount equivalent to that which would have been segregated under the bullet point above, payable in the event that the payment institution is unable to meet its financial obligations.

In the event of the dissolution of the payment institution and / or its liquidation, the safeguarded funds will be separated from the property of the payment institution and be distributed to the beneficiaries of the funds.

The Central Bank of Cyprus, after investigating each case on its own merits, shall decide on the adequacy of the method applied by the payment institution for the safeguarding of funds.
Licensing and Supervision of Electronic Money Institutions

In accordance with the provisions of the Electronic Money Law, 2012 (EML) which was enacted for the purposes of harmonisation with the act of the European Community entitled ‘Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009’ amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC, electronic money services in the Republic of Cyprus may only be provided by an electronic money institution which has been granted an authorisation by the Central Bank of Cyprus (CBC).

Notwithstanding the provisions of the Law concerning authorisations, the following persons may provide electronic money services in the Republic of Cyprus without obtaining the prior approval of the CBC:

- Banks licensed by the CBC or by a competent supervisory authority of another EU member state;
- Cooperative credit institutions which have been licensed by the Authority for the Supervision and Development of Cooperative Societies of Cyprus;
- Institutions which provide postal payment services and which issue electronic money by virtue of relevant legislation;
- The European Central Bank and national central banks when not acting in their capacity as monetary or other public authorities;
- Member states or their regional or local authorities when not acting in their capacity as public authorities;
- Electronic money institutions that have been granted and maintain a valid authorisation to operate by the competent supervisory authorities of other EU member states. These institutions may either exercise the right of establishment or the right to provide services on a cross-border basis, provided that the competent authorities of the home member state submit to the CBC a notification in the manner prescribed by the Electronic Money Institutions Directive (241/2012) issued by the CBC.

EML regulates the authorisation and prudential supervision of electronic money institutions by the Competent Authority.

Competent Authority

Under the EML, the Competent Authorities responsible for authorisation and supervision of Electronic Money Institutions (EMI) are:

- the Co-operative Societies Supervision and Development Authority (CSSDA) in relation to a legal person established by virtue of the Cooperative Companies Laws and in relation to a legal person established in a country other than the Republic of Cyprus by virtue of a law corresponding to the Cooperative Companies Laws, and
- the Central Bank of Cyprus (CBC) in every other case, including the case of a legal person established in a country other than the Republic of Cyprus and not covered by the subsection above.
Also, the Central Bank is the supervisory authority for the application of the provisions concerning the issue and redemption of electronic money in relation to:

- the issue of electronic money by a bank in the Republic of Cyprus or in a country which is not a member state;
- the issue of electronic money in the Republic of Cyprus or in a country which is not a member state by an electronic money institution authorised by the Central Bank;
- the issue of electronic money in the Republic of Cyprus by a branch of a bank licensed in another member state;
- the distribution and redemption of electronic money in the Republic of Cyprus via natural or legal persons by a bank licensed in another member state;
- the issue of electronic money in the Republic of Cyprus via a branch by an electronic money institution for which the CBC is the Competent Authority by virtue of section 24 (Electronic money institution authorised in another member state);
- the distribution and redemption of electronic money in the Republic of Cyprus via natural or legal persons by electronic money institutions for which the CBC is the Competent Authority by virtue of section 24 (Electronic money institution authorised in another member state);
- the issue of electronic money in another member state under the freedom to provide services, and
- the issue of electronic money in another member state under the freedom to provide services by an electronic money institution authorised by the CBC

The CSSDA is the supervisory authority for the application of the provisions concerning the issue and redemption of electronic money in relation to:

- the issue of electronic money in the Republic of Cyprus or in a country which is not a member state by co-operative credit society authorised by the Commissioner of the CSSDA;
- the issue of electronic money in the Republic of Cyprus or in a country which is not a member state by an electronic money institution authorised by the Commissioner of the CSSDA;
- the issue of electronic money in the Republic of Cyprus via a branch by a co-operative credit society licensed in another member state;
- the distribution and redemption of electronic money in the Republic of Cyprus via natural or legal persons by a co-operative credit society licensed in another member state;
- the issue of electronic money in the Republic of Cyprus via a branch by an electronic money institution for which the CSSDA is the Competent Authority by virtue of section 24 (Electronic money institution authorised in another member state);
- the distribution and redemption of electronic money in the Republic of Cyprus via natural or legal persons by an electronic money institution for which the CSSDA is the Competent Authority by virtue of section 24 (Electronic money institution authorised in another member state);
- the issue of electronic money in another member state under the freedom to provide services by a co-operative credit society licensed by the Commissioner of the CSSDA; and
- the issue of electronic money in another member state under the freedom to provide services by an electronic money institution licensed by the Commissioner of the CSSDA

The CBC and the CSSDA may issue jointly or severally, each as to the persons for which it is the competent authority, general or specific directives for the regulation of any issue in the EML that needs
or receptive of regulation provided that the CBC and the CSSDA act within the framework of the European Union acts in force in the Republic of Cyprus when issuing directives by virtue of the EML. Such directives are communicated in any way specified by the Competent Authorities.

The CBC and the CSSDA co-operate among them so as to fulfil effectively the duties assigned to them by the EML.

The Central Bank of Cyprus keeps a public register of electronic money institutions authorised by the Central Bank and by the CSSDA, as the case may be.

Issuers of Electronic Money and Authorised Activities

Under the EML, the ‘issuer of electronic money’ means a person referred to in subsection 4 of section 4 of the EML:

- banks;
- banks licensed by the designated authorities of other member states;
- co-operative credit institutions;
- institutions providing postal payment services and which issue electronic money by virtue of relevant legislation;
- the European Central Bank and the national central banks, when not acting in their capacity as monetary or other public authorities;
- member states or their regional or local authorities, when acting in their capacity as public authorities, and
- electronic money institutions

Only the persons falling in any of the above-mentioned categories may issue or appear to issue electronic money in the Republic of Cyprus.

In the EML the ‘electronic money institution’ means:

- a legal person authorised to issue electronic money under Part III (Authorisation of EMIs) of the EML, or
- a legal person authorised to issue electronic money by the competent authorities of a member state other than the Republic of Cyprus, where ‘electronic money’ means electronically, including magnetically, stored monetary value as represented by a claim on the issuer, which is issued on receipt of funds for the purpose of making payment transactions and which is accepted by a natural or legal person other than the issuer of electronic money.
List of Authorised Activities

Only the persons mentioned above and persons acting on their behalf may engage or appear to engage in one or more of the following activities in the Republic of Cyprus as a regular occupation or business activity:

- maintain a readily available electronic device, in which monetary value may be stored, for the purpose of placing electronic money in circulation;
- maintain a readily available instrument for the distribution of electronic money for the purpose of placing electronic money in circulation;
- receive monetary value in exchange for the distribution of electronic money;
- distribute electronic money;
- place electronic money in circulation;
- sell or resell electronic money products;
- renew the value of an electronic money product already in the hands of an electronic money holder;
- when not acting in their capacity as payers, to distribute electronic money to a person holding or purporting to hold electronic money;
- redeem electronic money held by a holder of electronic money;
- acting in the capacity of an employee or other capacity on behalf of a third party, approach persons who are holders or potential holders of electronic money.

The issuer of electronic money must issue electronic money of equal face value with the funds received.

The issuer of electronic money is prohibited from paying any interest or other benefit to the holder of electronic money in connection with the period for which electronic money is in his possession.

In addition to the issue of electronic money, electronic money institutions may engage in one or more of the following activities:

- provide the payment services covered in the authorisation of the electronic money institution;
- provide credit in connection with the provision of the payment services of paragraphs 4, 5 and 7 of the Annex to the Payment Services Laws (e.g. direct debits, payment transactions through a payment card, credit transfers; issuing and / or acquiring of payment instruments; etc.) and which are covered by the electronic money institution authorisation;
- operate payment systems;
- engage in commercial activity or business without prejudice to existing law.

Electronic money institutions may engage in operational and closely related ancillary services, which are related to the issue of electronic money or the provision of payment services, notwithstanding any requirement for prior authorisation. The Competent Authority may specify by directive the meaning of operational and closely related ancillary services, which are related to the issue of electronic money or the provision of payment services.

Electronic money institutions are not allowed to accept deposits or other repayable funds from the public.

In the process of the provision of payment services not connected with the issue of electronic money, electronic money institutions must not maintain accounts in the name of one or more payment service users that are not used exclusively for the execution of payment transactions.

The following are excluded from the scope of the EML:
monetary value stored in an instrument which can be used exclusively for the purchase of goods or services:
- in the business premises of the issuer of the instrument, or
- in a restricted network of service providers or for a restricted spectre of goods or services, following a commercial agreement with the issuer;
monetary value used for payment transactions executed with the use of a telecommunications or digital device or an electronic device, provided the following conditions are met:
- the goods on sale or the services provided are delivered and are intended to be used through a telecommunication or digital device or an electronic device, and
- the person providing the connection does not act simply as an intermediary between the user of the payment service and the seller of the goods or the payment service provider

Authorisation of Electronic Money Institutions

The policy to be applied in granting authorisation to an electronic money institution is determined by decision of the Competent Authority.

General Criteria

An authorisation for the operation of an electronic money institution is only granted to a legal person which has been incorporated and has its head office in the Republic of Cyprus.

An authorisation for the operation of an electronic money institution is only granted to a legal person which has been incorporated and has its head office in the Republic of Cyprus.

A person wishing to be authorised as an electronic money institution must submit an application to the Competent Authority accompanied with all documents and information specified by the Competent Authority by directive. For details, see relevant sections below.

When a legal person requesting authorisation or an already authorised electronic money institution intends to issue electronic money in parallel with other business activities, the Competent Authority may demand the establishment of a separate legal entity that will undertake the activities of the issue of electronic money and the provision of payment services, or for any of these activities when the other business activities either affect or there is a danger that they will affect the financial robustness of the institution or hinder the Competent Authority from monitoring the compliance of the electronic money institution with the EML, the Payment Services Laws and the directives issued there from.
The Competent Authority will grant an authorisation only if:

- it is fully satisfied that all conditions set out in the EML and the directives issued by virtue of the EML are met;
- it is convinced as to the suitability of the persons having direct or indirect control over the electronic money institution (when the person having direct or indirect control of an electronic money institution is a legal person, the suitability of the persons acting directly or indirectly as directors of that legal person, shall also be taken into consideration in the evaluation of the suitability);
- it is fully convinced that all members of the Board or the management of the electronic money institution are fit and proper to hold such positions in accordance with criteria defined by the Competent Authority by directive;
- close links between the legal person applying for authorisation and other natural or legal persons do not hinder the exercise of effective supervision;
- the legal person requesting authorization has in place a comprehensive organizational framework for the issue of electronic money and for the provision of payment services, including:
  - an explicit organizational structure which is transparent and cohesive, and with responsibilities explicitly allocated;
  - effective procedures for identifying, managing, monitoring and reporting the risks undertaken;
  - internal control mechanisms, including correct and appropriate management and accounting procedures;
  - the framework, the procedures and the mechanisms extensive and commensurate to the nature, the scale and the complexity of the issue of electronic money activities that the legal person requesting authorisation intends to engage in and the payment services it intends to provide.

The Competent Authority may specify additional conditions for the granting of authorisation to an electronic money institution, and specify, particularise or clarify the obligations of an electronic money institution and its authorised persons as well as any other issue that deserves handling in connection with the authorisation process.

Initial capital and own funds

Initial capital

Under the EML (section 12 (1)), a legal person applying for authorisation must maintain, at the time of authorisation, an initial capital of at least EUR 350,000.
The composition of the initial capital

The composition of the initial capital is specified by the Competent Authority in the Electronic Money Institutions Directive of 2012. Under this Directive, the initial capital includes the items specified in points (a) and (b) of subparagraph (1) of paragraph 3 of Unit A of the Central Bank of Cyprus Directive to banks for the Calculation of Capital Requirements and Large Exposures of 2006 to 2011:

- Issued and fully paid up capital comprising share capital plus the related share premium accounts in so far as it fully absorbs losses on a going concern basis and in the event of bankruptcy or liquidation ranks after all other claims. The share capital may include ordinary shares and instruments that provide preferential rights for dividend payment on a non-cumulative basis, provided that they rank pari passu with ordinary shares during liquidation and fully absorb losses on a going concern basis pari passu with ordinary shares;
- the reserves, excluding revaluation reserves, undistributed profits of prior years, which have been brought forward and recorded through the profit and loss account, as well as interim or year-end profits, only if these profits have been verified by persons responsible for the auditing of the accounts and if it is proved to the satisfaction of the Central Bank of Cyprus that the amount thereof has been evaluated in accordance with the principles set out in the International Financial Reporting Standards and is net of any foreseeable charge or dividend.

Own funds

An electronic money institution must maintain throughout its operation, own funds, the composition of which is specified by directive of the Competent Authority, at least equal to the sum of the amounts arising from the calculations pursuant to subsections 4 to 6 and the calculations pursuant to subsections 7 to 9 of section 12 of the EML.

Capital requirement for the issue of electronic money

The Competent Authority specifies by directive the method for the calculation of the minimum own funds for the issue of electronic money. This method is based on the value of electronic money in circulation.

The minimum own funds for the issue of electronic money must be equal to 2% of the average value of electronic money in circulation, where 'average value of electronic money in circulation' means the average value over the past six calendar months of the total value of financial obligations relevant to the electronic money issued at the end of each calendar day, which average value is calculated on the first calendar day of each calendar month and is applicable for the said calendar month.

Capital requirement for the provision of payment services not connected with the issue of electronic money

The Competent Authority specifies for each electronic money institution by directive, which constitutes an individual administrative act and which is communicated to the relevant electronic money institution, the methods for the calculation of minimum own funds in cases where payment services are provided, which are not related to the issue of electronic money.
The Central Bank defines for each electronic money institution one of the following methods for the calculation of minimum own funds for cases of provision of payment services which are not related to the issue of electronic money:

**Method A**
The electronic money institution’s own funds shall amount to at least 10% of its fixed overheads of the preceding year. This amount may be adjusted in the event of a material change in an electronic money institution’s business since the preceding year. Where an electronic money institution has not completed a full year’s business by the date of the calculation, the requirement shall be that its own funds amount to at least 10% of the corresponding fixed overheads as projected in its business plan, subject to any adjustments at the request of the Central Bank;

**Method B**
The electronic money institution’s own funds shall amount to at least the sum of the following elements multiplied by the scaling factor K (0,5 or 0,8 or 1 subject to the type of payment service provided irrespective of the issue of electronic money (for details see subparagraph (2) of section 8 of the Electronic Money Institutions Directive of 2012)), where payment volume (PV) represents one twelfth of the total amount of payment transactions executed by the electronic money institution in the preceding year:

- a) 4,0 % of the slice of PV up to EUR 5 million, plus
- b) 2,5 % of the slice of PV above EUR 5 million up to EUR 10 million, plus
- c) 1 % of the slice of PV above EUR 10 million up to EUR 100 million, plus
- d) 0,5 % of the slice of PV above EUR 100 million up to EUR 250 million, plus
- e) 0,25 % of the slice of PV above EUR 250 million;

**Метод C**
The electronic money institution’s own funds shall amount to at least the relevant indicator defined in point (a) below, multiplied by the multiplication factor defined in point (b) below and by the scaling factor K:

- a) The relevant indicator is the sum of the following:
  - i. interest income less interest expenses,
  - ii. commissions and fees received, and
  - iii. other operating income

Each element shall be included in the sum with its positive or negative sign. Income from extraordinary or irregular items may not be used in the calculation of the relevant indicator. Expenditure on the outsourcing of services rendered by third parties may reduce the relevant indicator if the expenditure is paid to other electronic money institutions as defined in subsection (1) of section 5 or subsection (1) of article 24 of the Electronic Money Law of 2012 or subsection (1) of section 24 of the Payments Services Laws of 2009 and 2010.

The relevant indicator is calculated on the basis of the twelve-monthly observation at the end of the previous financial year. The relevant indicator shall be calculated over the previous financial year. Nevertheless own funds calculated according to Method C shall not fall below 80% of the average of the previous three financial years for the relevant indicator. When audited figures are not available, business estimates may be used.

- b) The multiplication factor shall be:
  - i. 10 % of the slice of the relevant indicator up to EUR 2,5 million;
  - ii. 8 % of the slice of the relevant indicator from EUR 2,5 million up to EUR 5 million;
iii. 6 % of the slice of the relevant indicator from EUR 5 million up to EUR 25 million;

iv. 3 % of the slice of the relevant indicator from EUR 25 million up to 50 million;

v. 1,5 % above EUR 50 million

The Competent Authority may amend or replace any such directive for one of the following purposes:

- to specify a different method for the calculation of minimum own funds;
- to indicate the mode of application of the specified method of calculation;
- following an evaluation of the risk management procedures, the data bases relating to the risk of loss and the internal control mechanisms of the electronic money institution, to increase by up to 20% or reduce by up to 20% the minimum level of own funds as calculated by each specified method.

If an electronic money institution provides one or more payment services which are not related to the issue of electronic money or is engaged in one or more of the following activities (paragraphs (b) to (d) of subsection (1) and subsection (2) of section 15 of the EML):

- providing credit in connection with the provision of the payment services;
- operating payment systems;
- engaging in commercial activity;

- engaging in operational and closely related ancillary services related to the issue of electronic money or the provision of payment services and the value of electronic money in circulation is not known in advance:

  - the electronic money institution may request the approval of the Competent Authority for the calculation of the minimum level of own funds for the issue of electronic money to be based on a representative unit which it considers that it will use for the issue of electronic money, and

- the Competent Authority may grant such approval if it is satisfied that the designation of this representative unit is justified based on historical data.

If the electronic money institution has not been operating for a sufficient time, the minimum level of own funds is calculated on the basis of the expected electronic money in circulation as documented in the business plan, subject to any amendments to this plan requested by the Competent Authority.

Subject to any conditions that the Competent Authority may impose by directive, the Competent Authority may exempt from the requirement to apply a method for the calculation of own funds electronic money institutions that are included in the consolidated supervision of their parent credit institutions in accordance, as the case may be, to the provisions of the Banking Laws or the Cooperative Companies Laws. The Competent Authority grants this exemption by directive which constitutes an individual administrative act and which is communicated to the electronic money institution concerned.

An electronic money institution’s own funds may not, at any time, fall below the level of the initial capital requirement.
The composition of own funds

Under the Electronic Money Directive of 2012, own funds include, having regard to the circumstances, items specified in paragraphs 3(1) and (2), 4 to 8 and 10 of Unit A of the Directive to banks on the calculation of capital requirements and large exposures of 2006 to 2011. Among them are:

- Issued and fully paid up capital comprising share capital plus the related share premium accounts in so far as it fully absorbs losses on a going concern basis and in the event of bankruptcy or liquidation ranks after all other claims. The share capital may include ordinary shares and instruments that provide preferential rights for dividend payment on a non-cumulative basis, provided that they rank pari passu with ordinary shares during liquidation and fully absorb losses on a going concern basis pari passu with ordinary shares;

- The reserves, excluding revaluation reserves, undistributed profits of prior years, which have been brought forward and recorded through the profit and loss account, as well as interim or year-end profits, only if these profits have been verified by persons responsible for the auditing of the accounts and if it is proved to the satisfaction of the Central Bank of Cyprus that the amount thereof has been evaluated in accordance with the principles set out in the International Financial Reporting Standards and is net of any foreseeable charge or dividend;

- Revaluation reserves arising from fixed assets;

- Value adjustments arising from the mark-to-market of financial instruments in accordance with the IFRS;

- Fixed-term cumulative preferential shares and subordinated loan capital

The items to be excluded in addition to other foreseen deductions (a few examples are shown in the paragraph below) from the calculation of own funds are:

- Participations in other undertakings;

- Every item included in the own funds of a person which is obliged to maintain own funds during its operations, as long as that person and the electronic money institution belong to the same group, and

- Every item which is intended for use in a business or business activity other than the issue of electronic money or the provision of payment services, as the case may be

A few examples of items of the foreseen deductions are as follows:

- Share capital arising from the capitalisation of reserves arising from the revaluation of immovable property;

- Intangible assets including goodwill, formation expenses and software programs;

- Losses of the current financial year;

- Book value of holdings in other credit and financial institutions amounting to more than 10% of their capital in each case; and others

For details, see the relevant sections of the Directive to Banks on the Calculation of Capital Requirements and Large Exposures of 2006 to 2011.
Directors and managers of an electronic money institution

The Central Bank of Cyprus will evaluate the fitness and suitability of the directors and members of the management of the applicant as well as the persons managing the issue of electronic money and the provision of payment services in accordance with the Fitness and Suitability (Assessment Criteria) of Bank Directors and Managers Directives of 2006 and 2007, which sets the assessment criteria for the fitness and probity of directors and management, procedures for the assessment and provides explanations and clarifications on the application of the provisions of the Directive.

Directors and managers must have the necessary experience, expertise and knowledge to fulfil their responsibilities and functions. These should be persons who will act honestly, ethically and with integrity, characteristics which will promote a culture of compliance with the regulatory environment.

The assessment of the fitness and probity of a person which is proposed for the post of a director or of a manager is mainly performed using the Individual Questionnaire which the proposed director or manager is requested to fill in and submit to the Central Bank.

The Individual Questionnaire requires information on:

- the academic qualifications and experience of the proposed person;
- the person’s professional qualifications;
- any sanctions or court decisions against the person;
- the person’s capital statement of assets and liabilities;
- the person’s relation, either personal or professional, with bankruptcy proceedings;
- the person’s employment history / vocation during the last ten years prior to the submission of the Individual Questionnaire

The Individual Questionnaire duly completed and signed by the proposed person must be submitted to the CBC together with a declaration by the organisation stating that it is willing to proceed with the appointment to the relevant post and that it has verified the accuracy of the information contained in the Individual Questionnaire and requests the concurrence of the Central Bank to the proposed appointment.

The Central Bank examines the proposed appointment and may perform checks to verify the information contained in the Individual Questionnaire.

The Central Bank, if deemed necessary, may in addition decide to interview the proposed person.

Where the Central Bank is satisfied that the person is fit and proper for the proposed position, the Central Bank concurs with the appointment and the bank may proceed with the appointment in the proposed position.

The following are, inter alia, characteristics of a person not fit to be proposed for the post of director or chief executive officer:

- a person under the age of 21 years old;
- a person who has been declared bankrupt or has entered into an arrangement with his / her creditors;
- a person that has been convicted in any country of an offence involving fraud or dishonesty;
- a person that has been convicted of an of-
fence under the Banking Law and in the case where that person is a company:

- any director or any person who has control over that company;
- any subsidiary of that company;
- any director of any such subsidiary
- a person who has avoided the payment of legally imposed amounts towards the state using fraudulent means or false representations

Safeguarding requirements

General

Under subsection 1 of section 13 of the EML, electronic money institutions must safeguard:

- funds received in exchange for the issue of electronic money, and
- funds received from payment service users or via another payment service provider for the execution of payment transactions, for the provision of payment services not connected to the issue of electronic money

When a portion of funds received by an electronic money institution is intended to be used for future payment transactions and the remainder is intended to be used for services other than the issue of electronic money and the provision of payment services, the portion of the funds that is intended to be used for future payment transactions is subject to the safeguarding requirements.

If the portion of the funds which is intended to be used for future payment transactions is variable or is not known in advance, the Competent Authority may prescribe by directive that:

- the electronic money institution in question may request approval from the Competent Authority for the safeguarding requirements to apply to a representative portion of the funds received, which portion is considered to be used as electronic money and possibly for other payment services, and
- the Competent Authority will grant such approval if it is satisfied that this representative portion of the funds may be reasonably estimated on the basis of historical data

The Competent Authority by directive:

- may specify the method for the calculation of the funds to be safeguarded;
- may restrict or extend the safeguarding requirement specifying the period for which the safeguarding requirement shall be in effect;
- shall determine the safeguarding methods, including the assets in which safeguarded funds may be invested;
- may specify that, in cases where an electronic money institution is dissolved or placed in liquidation, the safeguarded funds are delivered to the beneficiaries with priority against claims of other creditors of the electronic money institution;
- may limit the safeguarding obligation for the provision of payment services that are not related to
the issue of electronic money, by setting maximum limits for funds that may not be safeguarded for each payment service user, and

- may exempt from the safeguarding requirements electronic money institutions which are not engaged in business activities other than the issue of electronic money or the provision of payment services, as far as the provision of payment services not related to the issue of electronic money is concerned

The Competent Authority may also impose restrictions on electronic money institutions in relation to the assets in which safeguarded funds may be invested.

For each electronic money institution, the Competent Authority specifies by directive, which constitutes an individual administrative act and which is notified to the electronic money institution concerned, the method or methods of safeguarding funds.

Safeguarding of the funds received in exchange for the issue of electronic money

Safeguarding methods

The Central Bank of Cyprus may specify for each electronic money institution one of or a combination of the following methods of safeguarding funds received in exchange for the issue of electronic money:

- The funds received by an electronic money institution in exchange for the issue of electronic money and until such time as this electronic money is redeemed must be deposited in a separate account in a credit institution or invested in secure and liquid assets of low risk. These funds must not be commingled at any time with the funds of any natural or legal person. The electronic money institution must take all necessary measures to ensure that the funds received are legally protected, in the interest of the holders of electronic money, against demands from other creditors, particularly in the case of liquidation or insolvency;

- The funds received must be covered by an insurance policy or some other comparable guarantee. The insurance or other comparable guarantee must be provided by an insurance company or credit institution not belonging to the same group as the electronic money institution, for an amount equivalent to that which would have been segregated under the bullet point above in the absence of the insurance policy or other comparable guarantee, payable in the event that the electronic money institution is unable to meet its financial obligations.

The following assets are considered to be low risk:

- assets falling in one of the categories of table 1 of paragraph 14 of Annex I of Unit B of the Directives to banks for the Calculation of the Capital Requirements and Large Exposures of 2006 to (No. 2) 2011, for which the specific risk capital requirement does not exceed 1.6% (for example, debt securities issued or guaranteed by central governments, issued by central banks, international organisations, multilateral development banks or Member States’ regional governments or local authorities which would qualify for credit quality step 1 or which would receive a 0% risk weight under the rules for the risk weighting of exposures under paragraphs 22 to 27 of Unit A), excluding qualifying items within the meaning of paragraph 15 of the same Annex, and

- units held in an undertaking for collective investments in transferable securities, as these terms
are defined in section 2 of the Open-Ended Undertakings for Collective Investments Law of 2012, which invests exclusively in the assets referred to in the bullet point above.

Liquid assets are the assets invested in that provide immediate liquidity, as these are defined in paragraph 3.6.1 of Annex I of the Directive for the Calculation of Protective Liquidity in Euro of 2008 to 2011.

An electronic money institution may not safeguard funds received in exchange for the issue of electronic money collected in the form of payment by a payment instrument, before they are credited in a payment account or become available to it in any other way in accordance with the provisions of the Payment Services Laws of 2009 and 2010 regarding execution deadlines, where applicable. In any case, an electronic money institution must safeguard such funds at the latest as from the fifth working day following the issue of electronic money.

Safeguarding of funds in the case of the provision of payment services not related to the issue of electronic money

Safeguarding methods

The Central Bank of Cyprus defines for each electronic money institution one of or a combination of the following methods for the safeguarding of the funds received from payment service users or via another payment service provider for the execution of payment transactions, for the provision of payment services not connected to the issue of electronic money:

- The funds received by an electronic money institution from the payment service users for the execution of payment transactions must not be commingled at any time with the funds of any natural or legal person; where such funds are still held by the electronic money institution and not yet delivered to the payee or transferred to another payment service provider by the end of the business day following the day when the funds have been received, they must be deposited in a separate account in a credit institution. The electronic money institution must take all necessary measures to ensure that the funds received are legally protected, in the interest of the payment service users, against demands from other creditors, particularly in the case of liquidation or insolvency

- The funds received must be covered by an insurance policy or some other comparable guarantee. The insurance or other comparable guarantee must be provided by an insurance company or credit institution not belonging to the same group as the electronic money institution, for an amount equivalent to that which would have been segregated under the bullet point above in the absence of the insurance policy or other comparable guarantee, payable in the event that the electronic money institution is unable to meet its financial obligations

The funds received must be covered by an insurance policy or some other comparable guarantee
Application for authorisation as an electronic money institution

Information and documents to accompany an application to the Competent Authority

Every application for the authorisation of an electronic money institution shall be submitted together with the following:

- a) a program of operations, setting out in particular the issue of electronic money and the type of any possible payment services envisaged;

- b) a business plan including a forecast budget calculation for the first three financial years, which demonstrates that the applicant is able to employ the appropriate and proportionate systems, resources and procedures to operate soundly;

- c) evidence that the legal person applying for authorisation holds the required initial capital;

- d) a description of measures taken to ensure compliance with the safeguarding requirements;

- e) a description of the applicant’s governance arrangements and internal control mechanisms, including administrative, risk management and accounting procedures, which demonstrates that these governance arrangements, control mechanisms and procedures are proportionate, appropriate, sound and adequate;

- f) a description of the internal control mechanisms which the applicant has established in order to comply with obligations in relation to the Prevention and Suppression of Money Laundering Activities Laws of 2007 and 2010 and Regulation (EC) No 1781/2006 of the European Parliament and of the Council of 15 November 2006 on information on the payer accompanying transfers of funds, as amended or replaced;

- g) a description of the participation of the applicant in a national or international payment system as well as the intended arrangements for outsourcing of operational activities, the intended use of agents and branches and the intended use of natural or legal persons for the distribution and redemption of electronic money;

- h) the identity of the persons that have, directly or indirectly, control of the applicant, including the identity of the natural persons that hold, directly or indirectly, shares or voting rights in one or more legal persons that have control of the applicant, as well as details on the size of the actual participation of these persons and their suitability, taking into account the need to ensure the sound and prudent management of an electronic money institution;

- i) the identity of directors and persons responsible for the management of the electronic money institution and, where relevant, persons responsible for the management of the issue of electronic money and the provision of payment services activities, as well as evidence that they are of good repute and possess appropriate knowledge and experience to issue electronic money and perform payment services, and in particular copy of clean criminal record report, non-bankruptcy report, description of professional and academic qualifications, managerial or board positions held in other legal persons, previous employments and experience in the issue of electronic money and the provision of payment services;

- j) the identity of statutory auditors;

- k) the applicant’s legal status and articles of association, and

- l) the address of the applicant’s head office

Every application for authorisation as an electronic
money institution must include the following in connection with any intended additional payment services:

- information and documents in accordance with points (a), (b) and (d), and
- any changes that may occur with regard to points (c) and (e) to (l) above

For the purposes of points (d), (e) and (g) above, the applicant must provide a description of its audit arrangements and the organisational arrangements it has set up with a view to taking all reasonable steps to protect the interests of the holders of electronic money and of the users of payment services and to ensure continuity and reliability in the issue of electronic money, including the redemption of electronic money, and to ensure continuity and reliability in the performance of payment services.

Forms to be completed by the applicant

Legal persons interested in obtaining an authorisation for providing electronic money services must complete and submit to the CBC the following application form:

**Application for authorisation as an Electronic Money Institution (EMD/Q1)**

Legal and natural persons which / who intend to hold a controlling shareholding (10% or more) in the share capital of an electronic money institution, the members of its board of directors as well as the persons who will be responsible for the management of the applicant are required to complete and submit to the CBC, as applicable, questionnaires EMD/Q2 and/or EMD/Q3:

**Questionnaire EMD/Q2** to be completed by legal persons:

- which hold / propose to hold, directly or indirectly a controlling shareholding in the share capital of the applicant (the term «control» has the meaning ascribed to it by section 2 of the Banking Law, 1997 as subsequently amended), or
- which are partners in an applicant partnership within the meaning of the General and Limited Partnerships and Business Names Law

**Questionnaire EMD/Q3** to be completed by natural persons:

- who hold / propose to hold directly or indirectly a controlling shareholding in the share capital of the applicant;
- who are partners in an applicant partnership within the meaning of the General and Limited Partnerships and Business Names Law, and
- who are directors / proposed directors of the applicant as well as persons who will be responsible for the management of the applicant

An electronic money institution which has been granted an authorisation by the CBC and intends to provide electronic money services through an agent and / or exercise the right of establishment or the right of freedom to provide services in another EU member state without establishment and / or to have its authorisation extended to cover additional payment services, must complete and submit to the CBC an appropriate application / notification for this purpose.

Applicants are urged to ensure that all required data and documents are included in the application before submitting it to the CBC so that delays in evaluating the application are avoided.
Taking of decision

Within three months of receiving a duly completed application for authorisation as an electronic money institution, the Competent Authority will decide the application and notify the legal person applying for authorisation of the approval or the rejection of the application. An application is considered as being duly completed only if it is submitted with all the required information and is accompanied by all the required data and documents. For details, see the relevant sections above.

If a submitted application for authorisation as an electronic money institution is incomplete the Competent Authority will notify accordingly the legal person that submitted the application.

Rejection of an application shall be duly justified.

Public register

Information identifying electronic money institutions that have been granted authorisation, i.e. the name of the electronic money institution, the number and the date of issue of the authorisation, including electronic money institutions authorised by the CSSDA, their branches, their agents as well as the payment services not related to the issue of electronic money that they are authorised to provide and any other information that the Competent Authority deems necessary will be recorded in the public register of electronic money institutions maintained by the CBC.

The register is accessible electronically.

Expenses

The Competent Authority may demand that legal persons applying for authorisation pay to it all costs relating to the examination of their application.

The Competent Authority may demand that electronic money institutions pay to it all expenses relating to the supervision of electronic money institutions and the application of provisions of relevant laws and agreements specified in section 39 of the EML.

After getting authorised

Amendments to the data submitted with an application

An electronic money institution must notify the Competent Authority without undue delay and at any time during its operation, of any amendment that affects the accuracy of the information, data and documents submitted to the Competent Authority as part of authorisation / extension of authorisation process.

An electronic money institution must give prior notice, at any time during its operation, to the Compe-
Acquiring control of an electronic money institution

Any natural or legal person deciding:

- to acquire or cease to have directly or indirectly control of an electronic money institution, or
- to further increase or reduce, directly or indirectly, such control so that:

  - the proportion of its capital holding or its voting rights reaches or exceeds twenty percent (20%), thirty percent (30%) or fifty percent (50%), or
  - the proportion of its capital holding or its voting rights fall below twenty percent (20%), thirty percent (30%) or fifty percent (50%), or
- the electronic money institution becomes its subsidiary, or
- the electronic money institution ceases to be its subsidiary, notifies its intention to the Competent Authority before it proceeds to any acquisition, release of holding, increase or reduction, respectively.

An electronic money institution must notify any amendment that affects the accuracy of the data submitted to the Competent Authority in connection with the identity of the persons having direct or indirect control over it.

Extension of authorisation

If an electronic money institution wishes to extend its authorisation to cover additional payment services the provision of which is not related to the issue of electronic money, it must submit an application to the Competent Authority accompanied by the information, data and documents that the Competent Authority will specify by directive.

Suspension of authorisation and deadline for compliance

The Competent Authority may suspend in part or in whole the authorisation of an electronic money institution. The Competent Authority may set a deadline for compliance, after the expiration of which, if no action is taken, it will revoke the authorisation.

An electronic money institution must give prior notice, at any time during its operation, to the Competent Authority for any material amendment affecting the measures that the electronic money institution is taking for complying with the safeguarding requirements.
Termination of authorisation

Under subsection 1 of section 16 of the EML, an electronic money institution’s authorisation will automatically be terminated in the following circumstances:

- An electronic money institution does not make use of its authorisation within 12 months of its issue provided that, if an electronic money institution partly utilises an authorisation, the authorisation is terminated as for the activities for which no use of the authorisation was made;

- An electronic money institution expressly renounces its authorisation;

- An electronic money institution has not issued electronic money or has not provided payment services for a period exceeding six months provided that, if an electronic money institution has not engaged in some of the activities for which it was authorised, its authorisation is terminated for those activities only

An electronic money institution shall inform the Competent Authority of the termination of its authorisation.

Following the termination of an authorisation for the issue of electronic money, the Competent Authority will set a deadline after which the electronic money institution’s authorisation will automatically be terminated for the provision of payment services as well.

The electronic money institution may apply to the CBC, before the expiry of the above deadline, for a payment institution authorisation in accordance with the Payment Services Laws, to be granted simultaneously with the termination in whole of the electronic money institution authorisation.

The undertaking will continue to be subject to the supervision of the Competent Authority after the termination in whole of the authorisation until such time as:

- the Competent Authority is satisfied that no electronic money is being issued and all relevant obligations have been settled, and

- either the Competent Authority is satisfied that the provision of payment services has ceased and all relevant obligations have been settled, or the Central Bank grants a payment institution authorisation to the same legal person in accordance with the Payment Services Law

Agents, branches and persons via whom electronic money is issued and redeemed

If an electronic money institution intends to provide payment services via an agent, it must apply for the registration of the agent. The application must be accompanied with all data and documents specified by the Competent Authority by directive.

Under the Directive, an application by an electronic money institution for the listing of an agent in the public register must include the following:

- the name and address of the agent;

- a description of the internal control mechanisms to be applied by the agent to ensure compliance with the obligations in relation to money laundering and terrorist financing under the provisions of the Prevention and Suppression of Money Launder-
dering Activities Laws of 2007 and 2010 and Regulation (EC) No 1781/2006 of the European Parliament and of the Council of 15 November 2006, on information on the payer accompanying transfers of funds, as amended or replaced, and

- the identity of directors and persons responsible for the management of the agent and of the persons that will manage the provision of payment services, and evidence that they are fit and proper persons, and in particular copy of criminal record and certificate of non-bankruptcy

The Competent authority will approve the registration of an agent if it is fully satisfied that the data and documents provided are correct and that the agent fulfils the criteria specified by the Competent Authority by directive.

The CBC will approve the listing of an agent of an electronic money institution in the public register provided:

- the agent has in place internal control mechanisms that ensure compliance with the obligations in relation to money laundering and terrorist financing under the provisions of the Prevention and Suppression of Money Laundering Activities Laws of 2007 and 2010 and Regulation (EC) No 1781/2006 of the European Parliament and of the Council of 15 November 2006, on information on the payer accompanying transfers of funds, as amended or replaced;

- there is no indication that, in connection with the proposed employment of the agent, there is any funding of terrorist acts or such funding is or has been attempted, or any legalisation of funds derived from illegal acts;

- the employment of the agent could not potentially increase the risk of funding of terrorism or legalising funds from illegal acts, and

- the agent has suitable and capable directors and managerial staff

If an electronic money institution wishes to provide payment services in another member state via an agent:

- it will have to follow the procedures specified in the freedom of establishment and freedom to provide services section of the EML (for summary see the relevant section below);

- the Competent Authority may consult with the competent authorities of the host member state and take into consideration their opinion as to the suitability of the persons via which the electronic money institution intends to distribute and redeem electronic money

Electronic money institutions shall not issue electronic money via agents in cases specified by the Competent Authority by directive.

Electronic money institutions must ensure that their branches, their agents and any other persons acting on their behalf inform the payment service users and the holders or potential holders of electronic money accordingly before providing any services to them.

Electronic money institutions must not provide payment services via persons not recorded in the public register or persons that have been stricken off this register.

Electronic money institutions shall not distribute or redeem electronic money via persons for the suitability of whom the Competent Authority is not convinced or which do not fulfil or have ceased to fulfil the required criteria (subsection 6 of section 19 of the EML).
Exercise of the freedom of establishment and of the freedom to provide services

Electronic money institutions authorised to operate in the Republic of Cyprus

An electronic money institution established in the Republic of Cyprus and wishing to issue electronic money or provide payment services in another member state, either under the freedom or establishment or under the freedom to provide services must notify its intention to the Competent Authority providing any information that the Competent Authority may stipulate by directive.

Under the Directive, for these purposes an electronic money institution shall submit the following to the Central Bank:

- the names of the persons responsible for the management of the branch in the host member state;
- the organisational structure of the branch, and
- the kind of operations the electronic money institution intends to engage in in the territory of the host member state

The CBC will not approve the listing of a branch in the public the register provided:

- there are indications that funding of terrorism or legalisation of funds from illegal acts is being attempted or has taken place or has been attempted, in connection with the setting up of the branch, or
- the setting up of the branch could potentially increase the danger for the funding of terrorism or the legalisation of funds from illegal acts

An electronic money institution must not commence operations in the host member state before the required notification and, in the case of the setting up of a branch in the host member state, before the registration of the branch in the register.

An electronic money institution established in the Republic of Cyprus that wishes to issue electronic money or provide payment services in a country which is not a member state, must submit an application to the Competent Authority.

The Competent Authority decides on the application applying the relevant criteria and after taking into consideration the legal, regulatory and administrative provisions of that third country and any difficulties stemming from their application.

An electronic money institution must not commence operations in the host member state before the required notification.
The Competent Authority may approve the application subject to any terms it may deem necessary and, subsequent to its approval, to amend or revoke such terms or impose new terms.

The Competent Authority may prohibit the issue of electronic money or the provision of payment services in a country which is not a member state by an electronic money institution.

Electronic money institution authorised in another member state

An electronic money institution that has obtained and maintains an authorisation from the competent authorities of another member state other than the Republic of Cyprus may issue electronic money and provide payment services in the Republic of Cyprus either under the freedom of establishment or under the freedom to provide services, to the extent that the issue of electronic money and the provision of payment services are covered by its authorisation.

The competent authorities of the home member state must notify the CSSDA, if the electronic money institution is a company established under legislation which corresponds to the Cooperative Companies Laws or the Central Bank of Cyprus in any other case, of the following information:

- the name and address of the electronic money institution;
- the names of the persons responsible for the management of the branch in the Republic of Cyprus;
- the organisational structure of the branch in the Republic of Cyprus;
- the nature of the activities that the electronic money institution intends to engage in in the Republic of Cyprus, and
- the information referred to in the previous paragraphs in relation to agents via whom the electronic money institution intends to provide payment services in the Republic of Cyprus and in relation to persons via whom the electronic money institution intends to distribute and redeem electronic money in the Republic of Cyprus.

An electronic money institution authorised in another member state must not:

- commence the issue of electronic money or the provision of payment services in the Republic of Cyprus prior to the required notification;
- continue the provision of payment services in the Republic of Cyprus through an agent the registration of whom from the corresponding public register in the home member state has been withdrawn;
- continue the issue of electronic money or the provision of payment services in the Republic of Cyprus through a branch the registration of which in the corresponding public register of the home member state has been withdrawn, and
- commence or continue the distribution or redemption of electronic money in the Republic of Cyprus through a person for whom the competent authority of the home member state has expressed its objection.

Outsourcing of operations to third parties

If an electronic money institution intends to outsource any operational activities in connection with
the issue of electronic money or the provision of payment services, to third parties in or outside the Republic of Cyprus, it must notify the Competent Authority accordingly. The Competent Authority particularises by directive the meaning of operational activities and specifies the conditions under which such activities may be outsourced.

Under the Directive, an operational function is regarded as important if a defect or failure in its performance would materially impair the financial performance of an electronic money institution or the continuity of the activity of the issue of electronic money including the redemption of electronic money, and the continued provision of payment services or its continuing compliance with the requirements of its authorisation or its other obligations laid down by the Electronic Money Law of 2012 and the Payment Services Laws of 2009 and 2010.

Any outsourcing of operational functions must meet the following conditions:

- the outsourcing must not result in the delegation of responsibility by the senior management of an electronic money institution;
- the relationship and obligations of the electronic money institution towards the holders of electronic money and its payment service users under the Electronic Money Law of 2012 and the Payment Services Laws of 2009 and 210 must not be altered;
- the conditions which the electronic money institution is to comply with in order to be authorised and remain so in accordance with the Electronic Money Law of 2012 must not be undermined, and
- none of the other conditions subject to which the electronic money institution’s authorisation was granted is removed or modified.

Accounting and statutory audit

An electronic money institution must prepare financial statements in a manner prescribed by the Competent Authority by directive. The Competent Authority may, for supervisory purposes, specify, particularise and clarify by directive every matter related to the preparation of financial statements in connection with the activities of the issue of electronic money and the provision of payment services, and in connection with any other business activities of the electronic money institution.

The provisions of sections 142(1)-(4)(a) and 143(1)-(4) of the Companies law shall apply, mutatis mutandis, to all electronic money institutions. The requirements are summarised in the relevant section below.
Each electronic money institution must submit to the Central Bank of Cyprus separate accounting information for the issue of electronic money, for the provision of payment services not connected with the issue of electronic money and for the activities referred to in paragraphs (c) and (d) of subsection 1 (i.e. the operation of payment systems and commercial activity / business) and in subsection 2 (i.e. operational and closely related ancillary services, which are related to the issue of electronic money or the provision of payment services) of section 15 of the Electronic Money Law of 2012.

An audit report must be prepared with regard to the above-mentioned accounting information. For electronic money institutions which, based on Cyprus or community law, are required to have their financial statements audited by external auditors, the audit report referred to above must be prepared by an external auditor.

Furthermore, all EMIs that provide electronic money services in the Republic of Cyprus must submit statistical data to the CBC as required.

**Maintenance of Records**

An electronic money institution must maintain records for at least five years.

**Supervision and inspection of electronic money institutions**

Every authorised electronic money institution must when so requested by the Competent Authority put at its disposal for examination its liquid and other assets, books, files and any other documents.

The Competent Authority may conduct on-the-spot examinations of electronic money institutions, of any agent via whom the institution provides or intends to provide services, of any branch via which the institution operates or intends to operate, of any natural or legal person via whom the institution engages or intends to engage in activities, including the distribution and redemption of electronic money, and of any external entity to which operations in connection with the issue of electronic money or the provision of payment services have been, or are intended to be, outsourced.
Compliance with anti-money laundering laws and regulations

Financial businesses covered by Money Laundering Regulations

Financial businesses covered by the Prevention and Suppression of Money Laundering Activities Law of 2007 (PSMLA) include the following among others:

- Acceptance of deposits from the public;
- Lending money to the public;
- Money transmission services;
- Issue and administration of means of payment such as credit cards, travellers’ cheques, bankers’ drafts and electronic money;
- Trading in one’s own account or on account of another person in:
  - stocks or securities including cheques, bills of exchange, bonds, certificates of deposits;
  - foreign exchange;
  - financial futures and options;
  - exchange and interest rate instruments;
  - transferable instruments
- Money broking;
- Safe custody services

Supervisory authorities

In the Republic of Cyprus supervisory authorities in relation to financial business are:

- The Authority for the Supervision and Development of Cooperative Societies in relation to the activities determined by the Co-Operative Societies laws of 1985-2007;
- The Unit for Combating Money Laundering (MOKAS)

The Central Bank of Cyprus

The PSMLA law designates the Central Bank of Cyprus as the supervisory authority for all persons licensed to carry on banking business in or from within Cyprus. In this regard, the Central Bank of Cyprus has been assigned with the duty of assessing compliance of all banks with the special provisions of the PSMLA in respect of their business.

The PSMLA law assigns to the Central Bank of Cyprus, the duty of monitoring, evaluating and supervising the implementation of the Law and of the Directives issued to supervised entities.

Under Article 59 (6) of the Law, the Central Bank of Cyprus, in its capacity as the competent supervisory authority, has the power to take all necessary measures and impose sanctions in cases where a person falling under its supervision fails to comply with the provisions of the Law or the Directives or the EC Regulation. The measures and sanctions prescribed by the Law are the following:

- To require the supervised person to take such measures within a specified time frame as may be set by the Supervisory Authority in order to remedy the situation;
The Central Bank of Cyprus in its capacity as supervisory authority may issue guidance notes to all in Cyprus. The purpose of guidance notes issued by the Central Bank of Cyprus as the supervisory authority of the international financial services sector is to provide a practical interpretation of the requirements of the PSMLA law in respect of financial businesses and to indicate good financial business practice.

The Unit for Combating Money Laundering (MOKAS)

The Unit for Combating Money Laundering (MOKAS) was established according to section 54 of the Prevention and Suppression of Money Laundering Activities Law 2007 (former Law No. 61(I)/96), in December 1996 and became operational in January 1997. It functions under the Attorney General of the Republic of Cyprus and it is composed of representatives of the Attorney General, the Chief of Police, and the Director of the Department of Customs and Excise.

The Unit is the national centre for receiving, requesting, analysing and disseminating disclosures of suspicious transactions reports and other relevant information concerning suspected money laundering or financing of terrorism activities.

The main functions of MOKAS are as follows:

- Issuing administrative orders for the postponement of transactions
- Members of the Unit can apply and obtain court orders, i.e. disclosure orders, freezing and confiscation orders. In the case of confiscation orders resulting from the co-operation with foreign Authorities there is an agreement for sharing of the proceeds which are deposited in the Republic’s Consolidated Fund
- Protection of the confidentiality of the information under examination
- Issuing instructions for the best possible performance of the Unit
- Participation in international organisations regarding AML / CFT issues
- It has been designated by the Council of Ministers as the Asset Recovery Office for cooperating with the corresponding Authorities of other EU member states

A Supervisory Authority for the purpose of preventing money laundering and terrorist financing and for the purposes of the PSMLA law issues directives to persons falling under its supervision, which are binding and obligatory as to their application for the persons they are addressed to.

Where a supervisory authority is of the opinion that
a person falling within its responsibility has failed to comply with the provisions of the PSMLA law relating to financial business it has a legal obligation to refer the matter to the Attorney General. Where a supervisory authority obtains information and is of the opinion that any person may have been engaged in money laundering then it has a legal obligation to disclose the relevant information to the Unit for Combating Money Laundering (MOKAS).

Anti-money laundering controls and monitoring

The PSMLA law requires all persons carrying on financial business to establish and maintain specific policies and procedures to guard against their business and the financial system in general being used for the purposes of money laundering.

In essence these procedures are designed to achieve two purposes:

- to facilitate the recognition and reporting of suspicious transactions and,
- to ensure through the strict implementation of the “know-your-customer” principle and the maintenance of adequate record keeping procedures, should a customer come under investigation, that the financial business is able to provide its part of the audit trail

Any person carrying on financial activities is obliged to apply adequate and appropriate systems and procedures in relation to the following:

- customer identification and customer due diligence in accordance with the provisions of sections 60-66 of the PSMLA law;
- record-keeping in accordance with provisions of section 68 of the PSMLA law;
- internal reporting and reporting to MOKAS in accordance with the provisions of section 69 of the PSMLA law;
- internal control, risk assessment and risk management in order to prevent money laundering and terrorist financing;
- detailed examination of each transaction which by its nature may be considered to be particularly vulnerable to be associated with money laundering offences or terrorist financing and in particular complex or unusually large transactions and all other unusual patterns of transactions which have no apparent economic or visible lawful purpose
- informing their employees in relation to:
  - The systems and procedures in accordance with paragraphs (a) to (e) of section 58 of the PSMLA law
  - The PSMLA law
  - The Directives issued by the competent Supervisory Authority according to section 59 (4) of the PSMLA law and
  - The European Union’s Directives on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing
- ongoing training of their employees in the recognition and handling of transactions and activities which may be related to money laundering or terrorist financing

The PSMLA law requires all persons carrying on financial business to establish and maintain specific policies and procedures
Customer identification and customer due diligence

General requirements

Persons engaged in financial and other business apply customer identification procedures and customer due diligence measures in the following cases:

- When establishing a business relationship;
- When carrying out occasional transactions amounting to EURO 15,000 or more, whether the transaction is carried out in a single operation or in several operations which appear to be linked;
- When there is a suspicion of money laundering or terrorist financing, regardless of the amount of the transaction;
- When there are doubts about the veracity or adequacy of previously customer identification data.

Customer identification procedures and customer due diligence measures must comprise:

- identifying the customer and verifying the customer's identity on the basis of documents, data or information obtained from a reliable and independent source;
- identifying the beneficial owner and taking risk-based and adequate measures to verify the identity on the basis of documents, data or information obtained from a reliable and independent source so that the person carrying on in financial or other business knows who the beneficial owner is; as regards legal persons, trusts and similar legal arrangements, taking risk based and adequate measures to understand the ownership and control structure of the customer;
- obtaining information on the purpose and intended nature of the business relationship;
- conducting ongoing monitoring of the business relationship including scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the information and data in the possession of the person engaged in financial or other business in relation to the customer, the business and risk profile, including where necessary, the source of funds and ensuring that the documents, data or information held are kept up-to-date.

Persons engaged in financial or other business activities apply each of the customer due diligence measures and identification procedures set out above, but may determine the extent of such measures on a risk-sensitive basis depending on the type of customer, business relationship, product or transaction. Persons engaged in financial or other business activities must be able to demonstrate to the competent Supervisory Authorities that the extent of the measures is appropriate in view of the risks of the use of their services for the purposes of money laundering and terrorist financing.

The verification of the identity of the customer and the beneficial owner is performed before the establishment of a business relationship or the carrying out of the transaction.

The verification of the identity of the customer and the beneficial owner may be completed during the establishment of a business relationship if this is necessary not to interrupt the normal conduct of business and where there is little risk of money laundering or terrorist financing occurring. In such situations these procedures must be completed as soon as practicable after the initial contact.

In cases where a person engaged in financial or other business activities is unable to comply with...
customer due diligence and identification requirements mentioned above (sub-paragraphs (a) to (c) of paragraph (1) of section 61 of the PSMLA law), it must not carry out a transaction through a bank account, establish a business relationship or carry out the transaction, or must terminate the business relationship and consider making a report to Unit for Combating Money Laundering (MOKAS).

Identification procedures and customer due diligence requirements must be applied not only to all new customers but also to existing customers at appropriate times, depending on the level of risk of being involved in money laundering or financing of terrorism offences.

Persons engaged in financial or other business activities, take reasonable measures for collecting adequate documents, data or information for establishing and verifying the identity of the third person on whose behalf the customer is acting.

It is prohibited for persons engaged in financial or other business activities to open or maintain anonymous or numbered accounts or accounts in names other than those stated in official identity documents.

Simplified customer due diligence and identification procedures

Persons engaged in financial or other business activities may apply simplified customer due diligence and identification procedures in respect of the following customers:

- Credit or financial institution covered by the EU Directive;
- Credit or financial institution carrying out financial business activities and which is situated in a country outside the European Economic Area, which:
  - in accordance with a decision of the Advisory Authority for Combating Money Laundering and Terrorist Financing, imposes requirements equivalent to those laid down by the EU Directive and
  - it is under supervision for compliance with those requirements
- Listed companies whose securities are admitted to trading on a regulated market in a country of the European Economic Area or in a third country which is subject to disclosure requirements consistent with community legislation;
- Domestic public authorities of countries of the European Economic Area

It is provided that persons engaged in financial or other business activities have to gather sufficient information to establish if the customer qualifies for such an exemption.

It is not required that certain identification procedures and customer due diligence requirements be applied (for details, see paragraph 2 of section 63 of the PSMLA law) in respect of electronic money:

- if the device cannot be recharged, the maximum amount stored in the device is no more than euro 150; or
- if the device can be recharged, a limit of euro 2,500 is imposed on the total amount transacted in a calendar year, except when an amount of euro 1,000 or more is redeemed in the same calendar year by the bearer
Enhanced customer due diligence

Persons engaged in financial or other business activities apply the following enhanced customer due diligence measures, in addition to those mentioned above in certain situations detailed in section 64 of the PSMLA law, for example:

- Where the customer has not been physically present for identification purposes;
- In respect of cross-frontier correspondent banking relationships with credit institutions-customers from third countries;
- In respect of transactions or business relationships with politically exposed persons residing in a country within the European Economic Area or a third country.

Enhanced customer due diligence measures must be taken in all other instances which due to their nature entail a higher risk of money laundering or terrorist financing.

Internal control procedures and risk management

Article 58 of the PSMLA law requires all persons carrying on financial or other business to establish adequate and appropriate systems and procedures, inter alia, for the following:

- Internal control, risk assessment and risk management in order to forestall and prevent money laundering and terrorist financing, and
- the detailed examination of any transaction which by nature may be considered to be particularly vulnerable to be associated with money laundering or terrorist financing, and in particular, complex and unusually large transactions and all unusual patterns of transactions which have no apparent economic or clear lawful purpose.

The Board of Directors, the credit institution’s Senior Management and, in the cases of branches of foreign banks operating in Cyprus, the Manager of the Cyprus branch, are responsible for ensuring the implementation of the requirements of the PSMLA law and the Directive of the CBC to Credit Institutions (Fourth Edition) and the introduction of appropriate systems and internal control procedures for the identification, evaluation, monitoring and effective management of the risks emanating from money laundering or terrorist financing activities according to the nature, size and complexity of their operations.

Effective procedures for the prevention of money laundering and terrorist financing include appropriate management oversight, systems and controls, segregation of duties, education and other relevant practices.

Assessment of Banks’ Organisational Structure, Internal Governance and Internal Control Systems” issued in May, 2006, and its subsequent amendments requires that credit institutions whose shares are listed on the Stock Exchange or operate branches and / or subsidiaries abroad and whose total off balance sheet and on balance sheet assets exceeds 2 bn EUR setup a Compliance Unit which is administratively independent from other units whose responsibilities include risk management, executive or audit responsibilities e.g. Risk Management Unit, Internal Audit Unit and Legal Unit of the credit institution. The aforementioned Directive, amongst others, provides that the Compliance Unit of a credit institution or its Risk Management Unit (where no Compliance Unit has been set up) establishes and applies suitable procedures for the purpose of achieving a timely and on-going compliance of the credit institution with the applicable supervisory and regulatory framework relating to the prevention of the use of the financial system for the purposes of money laundering and financing of terrorism. In this respect, the Money Laundering Compliance Officer appointed under Article 69 of the PSMLA should organizationally belong to the Compliance Unit or, where such unit has not been established, to the Risk Management Unit.

The Money Laundering Compliance Officer (“MLCO”) should be appointed by the credit institution’s Board, after having obtained the consent of the Central Bank of Cyprus which reserves the right to request his / her substitution if, in its opinion, he / she is not “fit and proper”, as laid down in Article 69(1) of the PSMLA law, to discharge his / her duties. It should be noted that the MLCO could be the same person as with the Head of Compliance Unit.

The Central Bank of Cyprus requires credit institutions to apply the following measures and procedures:

- The Board of Directors determines, records and approves the general policy principles of the credit institution for the prevention of money laundering and terrorist financing which are subsequently communicated to the Senior Management and the MLCO;

- In case where a credit institution operates branches or subsidiaries in a third country, it has to put in place a Group policy (See Section 9 of this Directive);

- The credit institution’s Senior Management should be aware of the degree of risk of money laundering and terrorist financing that the credit institution is exposed to and whether all the necessary measures for their management and mitigation have been implemented. Consequently, the MLCO has the responsibility to draft and submit to the Board through the Senior Management a brief report recording and evaluating all money laundering and terrorist financing potential risks (having in mind the areas of operation of the credit institution, the development of new products and services, the customer acceptance policy, expansion to new markets/countries, the complexity of legal persons’ ownership structure, ways to attract customers, etc.), the measures that have been taken for their management and mitigation as well as the monitoring mechanisms for the appropriate and effective operation of internal regulations, procedures and controls;

- The MLCO has the responsibility in cooperation with other departments of the credit institution (e.g. the Organisation and Methods Unit) for the design of the internal practices, procedures and controls, as well as the description and explicit allocation of competence and limits of responsibility of each unit that is involved in the prevention of money laundering and terrorist financing. In this connection, a risk management and procedures manual should be prepared, which after being approved by the credit institution’s Senior Management, should be communicated to the executives and all the employees that manage, monitor or control in any way the customers’ ac-
counts and transactions and have the responsibility for the application of the policy, procedures and controls that have been determined. The risk management and procedures manual covers, inter alia, the credit institution’s customer acceptance policy, the procedures for establishing a business relationship, executing one-off transactions, opening of accounts and customer due diligence, including the documents and information that is required for the establishment of a business relationship and execution of transactions, the procedures for the on-going monitoring of accounts and transactions, as well as, the procedures and controls for the identification of unusual and suspicious transactions and their internal reporting to the MLCO. The manual is assessed on a periodic basis and reviewed when deficiencies are found or when the need arises to adapt the credit institution’s procedures for the effective management of the risks emanating from money laundering and terrorist financing. It should be noted that any reviews of the manual should be approved by the Senior Management;

- Explicit responsibilities and duties are allocated to the credit institution’s staff so as to secure the effective management of policy, procedures and controls for the prevention of money laundering and terrorist financing and achieving compliance with the requirements of the Central Bank of Cyprus’ Directives and the PSMLA law;

- The MLCO, the Alternate MLCO, the Assistant Money Laundering Compliance Officers and other members of staff who have been assigned with the duty of implementing the adopted procedures for the prevention of money laundering and terrorist financing, have full and timely access to all information concerning customers’ identity, transactions’ records and other relevant files and information maintained by the credit institution so as to be fully facilitated in the effective discharge of their duties;

- All employees are made aware of the person appointed as MLCO (as well as his alternate) to whom they should report any information concerning transactions and activities for which they have knowledge or suspicion that might be related to money laundering and terrorist financing activities;

- There is a clear and concise reporting chain, explicitly prescribed in the risk management and procedures manual by which information regarding suspicious transactions is passed without delay to the MLCO, either directly or through his Assistants;

- Explicit policy and procedures are applied and measures are taken for preventing the abuse of new technologies and systems of providing banking services and effecting banking transactions for the purpose of money laundering and terrorist financing (e.g. services and transactions via the internet, telephone or via the Automatic Teller Machines or other modern telecommunication devices);

- Appropriate measures are applied so that the risk of money laundering and terrorist financing is appropriately considered and managed in the course of daily activities of the credit institution with regard to the development of new products and possible changes in the credit institution’s business profile (i.e. penetration of new markets with the opening of branches / subsidiaries in new countries / regions). It is noted that the Central Bank of Cyprus’s Directive on the “Framework of principles of operation and criteria of assessment of banks’ organisation-al structure, internal governance and internal control systems” issued to banks’ in May 2006 and as subsequently amended, requires the participation, in an advisory capacity, of the Compliance Unit in the planning of new products and procedures, in matters that call for an operational decision, as well as for the assessment of operational risk which may result from a major development (merger, acquisition, etc.), so
The necessary control and risk management mechanisms which will ensure compatibility with the existing rules are established and pursued;

- The Senior Management of the credit institution ensures that the MLCO has sufficient resources, including competent staff and technological equipment, for the effective discharge of his / her duties;

- The Internal Audit Unit reviews and evaluates, on an annual basis, the effectiveness and adequacy of the policy, procedures and controls applied by the credit institution for preventing money laundering and terrorist financing and verifies the level of compliance with the provisions of the Central Bank of Cyprus’ Directive and the PSMLA law. Findings and observations of the internal auditor are submitted to the Board of Directors’ Audit Committee and are notified to the Senior Management and the MLCO of the credit institution who take the necessary measures to ensure the rectification of any weaknesses and omissions which have been detected by the internal auditor. The internal auditor monitors, on an ongoing basis, through progress reports, or other means the implementation of his recommendations;

- Credit institutions apply explicit procedures and standards of recruitment and evaluation of new employees’ integrity.

Under the Central Bank of Cyprus Laws of 2002-2007 a “credit institution” means:

- a bank;
- a co-operative credit society;
- an electronic money institution.

The Money Laundering Compliance Officer

Appointment of a Money Laundering Compliance Officer (“MLCO”)

Article 69(1) of the PSMLA law requires persons carrying out financial and other business activities to apply the following internal reporting procedures:

- Appoint senior staff member who has the skills, knowledge and expertise in financial or other activities, as the case may be, known as the MLCO to whom a report is to be made about any information or other matter which comes to the attention of the person handling financial or other business and which, in the opinion of the person handling that business, proves or creates suspicions that another person is engaged in money laundering or terrorist financing;

- Require that any such report be considered in the light of all other relevant information by the MLCO, for the purpose of determining whether or not the information or other matter set out in the report proves this fact or creates such suspicion;

- Allow the MLCO to have access to any information, records and details which may be of assistance to him / her and which is available to the person carrying out financial or other business activities; and

- Ensure that the information or other matter contained in the report is transmitted to the Unit for Combating Money Laundering (“MOKAS”) where the person who has considered the report under the above procedures ascertains or has reasonable suspicions that another person is engaged in a money laundering offence or terrorist financing or the transaction might be related to such activities.
Furthermore, the PSMLA law explicitly provides that the obligation to report to MOKAS includes also the attempt to execute such suspicious transactions.

The MLCO should be appointed by the Board, after having obtained the consent of the Central Bank of Cyprus which reserves the right to request his / her substitution if, in its opinion, he / she is no longer “fit and proper”, as laid down in Article 69(1) of the PSMLA law, to discharge his / her duties. In this connection, the person who has been nominated for appointment to the position of the MLCO should complete the Individual Questionnaire, found in Appendix 1 of the Directive of the CBC to Credit Institutions (Fourth Edition), which includes information regarding the person’s career, including the qualifications held and work experience, as well as details of any sanctions or criminal convictions against the person. The said person should act independently and autonomously to perform the above duties, and depending on the organizational structure of the credit institution, should possess the appropriate seniority so as to command the necessary authority.

Additionally, the credit institution should also appoint an Alternate MLCO who should replace the MLCO in case of absence. Where it is deemed necessary due to the volume and / or the geographic spread of the credit institution’s operations, credit institutions may appoint Assistant MLCOs by division, district or otherwise for the purpose of assisting the MLCO and immediately forwarding internal suspicion reports to the MLCO. In light of the aforesaid, credit institutions should communicate to the Central Bank of Cyprus, within ten days from the date of the appointment of the Alternate MLCO, his name, position and contact details.

**Duties of Money Laundering Compliance Officers**

The role and responsibilities of the MLCO, the Alternate MLCO, as well as those of his Assistants, should be clearly specified by credit institutions and documented in the risk management and procedures manual for the prevention of money laundering and terrorist financing.

Furthermore, the Compliance Unit or, where it does not exist, the MLCO should maintain procedures manual for all his tasks/responsibilities.

As a minimum, the **duties of the MLCO** should include the following:

- The MLCO has the responsibility, to record and assess on an annual basis all risks arising from existing and new customers, products and services as well as the measures or changes to the systems and procedures implemented by the credit institution for the effective management of the aforesaid risks. The said report should be submitted to the Board of Directors through the Senior Management for consideration and approval. A copy of the said report should be submitted to the Central Bank of Cyprus together with the MLCO’s annual report. In addition to the aforementioned annual briefing of the Senior Management by the MLCO on the risks facing the credit institution, the MLCO is obliged to keep the Senior Management informed of any differentiation of those risks on an on-going basis;

- The MLCO prepares the Customer Acceptance Policy which is submitted through the Senior Management of the credit institution to the Board of Directors for consideration and approval;

- The MLCO has the primary responsibility for the preparation of the credit institution’s risk management and procedures manual for the prevention of money laundering and terrorist financing. The manual is assessed on a periodic basis and reviewed when deficiencies are found or when the need arises to adapt the credit institution’s pro-
cedures for the effective management of the risks emanating from money laundering and terrorist financing;

- Without prejudice to the obligations of the Compliance Unit, as set out above, the MLCO monitors and assesses whether the policy, procedures and controls that have been introduced for the prevention of money laundering and terrorist financing are correctly and effectively applied. In this regard, the MLCO should apply appropriate monitoring mechanisms (e.g. on-site visits to units / branches) which will provide him / her with all necessary information for assessing the level of compliance of the units / branches of the credit institution with the procedures and controls currently in force. In the event that the MLCO identifies shortcomings and / or weaknesses in the application of the requisite procedures and controls, he / she should give appropriate guidance for corrective measures;

- The MLCO receives any information from the credit institution’s employees which is considered by the latter to be knowledge or suspicion of money laundering or terrorist financing activities or might be related with such activities in the form of an internal report. A specimen of such an internal report (Internal Money Laundering Suspicion Report) is attached, as Appendix 2, to the CBC’s Directive to Credit Institutions 2013 (Fourth Edition). All such reports should be registered and kept on a separate file;

- The MLCO evaluates and investigates the information received, citing other available sources of information, the discussion of the case with the reporting employee and, where appropriate, with the employee’s superior(s). The evaluation of the information reported to the MLCO should be made on a separate form which should be registered and retained on file. A specimen of such a report (Money Laundering Compliance Officer’s Internal Evaluation Report) is attached, as Appendix 3, to the Directive;

- If following the evaluation described in above, the MLCO decides to notify the Unit for Combating Money Laundering (MOKAS), then he / she should complete a written report and submit it to MOKAS the soonest possible. A specimen of such a report (Money Laundering Compliance Officer’s Report to the Unit for Combating Money Laundering) is attached, as Appendix 4, to the Directive. All such reports should be registered and kept on a separate file;

- After the submission of the MLCO’s report to MOKAS, the transactions of the customer(s) involved are monitored by the MLCO;

- If following the evaluation described above, the MLCO decides not to notify MOKAS then he / she should fully explain the reasons for such a decision on the “Money Laundering Compliance Officer’s Internal Evaluation Report” which should, as already stated, be registered and retained on file;

- The MLCO maintains a registry with statistical information (e.g. district and branch / unit maintaining the customer(s) account(s), date of submission of the internal report, date of assessment, date of reporting to MOKAS) in relation to the Internal Money Laundering Suspicious Reports and the MLCO’s reports to MOKAS;

- The MLCO acts as a first point of contact with MOKAS, upon commencement of and during an investigation as a result of filing a report to MOKAS;

- The MLCO responds to requests from MOKAS and provides all the supplementary information requested and fully co-operates with MOKAS;

- The MLCO ensures that all branches and subsidiaries of the credit institution in non-EU countries have taken all necessary measures for achieving full compliance with the provisions of this Directive in relation to customer identification, due diligence and record keeping procedures;

- The MLCO must cooperate, coordinate and exchange information with the other MLCOs of the group;
The MLCO is generally responsible for the timely and correct submission to the Central Bank of Cyprus of the prudential reports referred to in Section 10 of the CBC’s Directive to Credit Institutions 2013 and for providing the necessary explanations to the employees responsible for the preparation of the aforesaid returns. The MLCO responds promptly to any queries or clarifications requested by the Central Bank of Cyprus in relation to information contained in the aforesaid returns;

The MLCO is responsible for examining and deciding on the applications for accepting cash deposits in foreign currency notes submitted in writing by the responsible officials of the branches / units of the credit institution where the related customers’ accounts are maintained. Copies of the applications submitted together with his / her decision must be kept by the MLCO on a separate file as well as the file of the customer concerned;

The MLCO keeps records with the full details of customers or group of connected customers (name, address, account number(s), branch(es) maintaining the account(s)) for which he / she has given his / her written approval for a one-off cash deposit or a series of cash deposits in foreign currency notes on a continuous and regular basis. In this respect, the MLCO must keep separate records for customers who are involved in:

- one-off cash deposits, and
- cash deposits on a continuous and regular basis

The MLCO maintains a register of all cases of persons (prospective customers) for which the credit institution declined the establishment of business relationship;

The MLCO responds to all requests and queries from the Central Bank of Cyprus and provides all requested information and co-operates fully with the Central Bank of Cyprus;

The MLCO, the Alternate MLCO and the Assistant MLCOs acquire the requisite knowledge and skills for the implementation of appropriate internal procedures for recognising, preventing and reporting transactions / activities suspected to be associated with money laundering or terrorist financing;

The MLCO provides advice and guidance to the employees of the credit institution on the correct implementation of procedures and controls to prevent money laundering and terrorist financing;

The MLCO determines which of the credit institution’s units / branches staff and employees need further training and education for the purpose of money laundering and terrorist financing prevention and organises appropriate training sessions / seminars. In this regard, the MLCO prepares and applies, in co-operation with other departments of the credit institution, an annual staff training program;

The MLCO maintains the following records in relation to the seminars and other training offered to the credit institution’s employees and assesses the adequacy of the education / training provided:

- Name of employee per branch / department and position (i.e. management, officers, newcomers, etc.)
- Date of the seminar, title, duration, names of lecturers
- Whether the lecture/seminar was organised internally or offered by an external organisation or consultants

The MLCO assesses the systems and procedures applied by a third person on whom the credit institution relies for customer identification and due diligence purposes or who applies for the opening of “client accounts”;

The MLCO maintains a register with the data /
information (i.e. name, place of business, area of activity, supervisory authority, date of commencement of business relationship, last review date, next review date, rating) of the third person with whom the credit institution has established a business relationship;

- The MLCO assesses the adequacy of the policy and the related measures to prevent money laundering and terrorist financing applied by non-EU banks which apply for the opening of correspondent accounts;

- The MLCO ensures that the credit institution prepares and maintains lists of customers classified as low and high risk (as these are determined by the Law, the Central Bank of Cyprus’ Directive and the credit institution itself) which should contain the names of customers, their account number(s), the branch / unit maintaining the account(s) and the date of the commencement of business relationship. Moreover, the MLCO ensures the regular updating of the said lists with new or existing customers which the credit institution has decided, in the light of additional information obtained, to classify as low or high risk customers;

- The MLCO obtains and utilises, for the purpose of applying the provisions of Section 4.14.2.9 “Customers from countries which do not adequately apply FATF’s recommendations”, the country assessment reports on money laundering issued by the Financial Action Task Force, regional international bodies which have been established and operate on FATF principles (e.g. Moneyval Committee of the Council of Europe), the International Monetary Fund and the World Bank;

- The MLCO receives or suggests, depending on the case, corrective measures on issues related to the prevention and suppression of money laundering and terrorist financing in accordance with the findings of the Central Bank of Cyprus;

- The MLCO evaluates the findings of the Internal Audit Unit regarding the taking of corrective measures on issues related to the prevention and suppression of money laundering and terrorist financing;

- The MLCO reviews the information contained in the return submitted to the Central Bank of Cyprus for loans and deposits on the basis of the country of permanent residence of the ultimate beneficial owner of the account and, where appropriate, investigates any trends identified that may raise money laundering or terrorist financing concerns and be prepared to respond to queries raised by the Central Bank of Cyprus.

Annual Report of the Money Laundering Compliance Officer

The MLCO has also the duty of preparing an Annual Report which is a significant tool for assessing a credit institution’s level of compliance with its obligations laid down in the PSMLA law and the Central Bank of Cyprus’ Directives for the prevention of money laundering and terrorist financing.

The MLCO’s Annual Report should be prepared within two months from the end of each calendar year (i.e. by the end of February, the latest) and should be submitted for consideration to the Board of Directors through the credit institution’s Senior Management. In the case of a credit institution operating in Cyprus in the form of a branch, the Annual Report should be submitted to the credit institution’s Board of Directors through the Senior Management of its country of origin.

A copy of the Annual Report submitted to the Board of Directors, shall also be forwarded at the same time to the Central Bank of Cyprus. Copies of the minutes citing the Board’s approval should be also submitted to the Central Bank of Cyprus as soon as possible following the relevant meeting of the Board of Directors.
Details on what the MLCO’s Annual Report should cover as a minimum are set out in Section 23 of the CBC’s Directive to Credit Institutions 2013.

Record keeping

Persons engaged in financial activities are required to keep records for a period of at least five years of the following documents:

- copies of the evidential material of the customer identity
- relevant evidential material and details of all business relations and transactions, including documents for recording transactions in the accounting books and
- relevant documents of correspondence with the customers and other persons with whom they keep a business relation

The five year period is calculated following the carrying out of the transactions or the end of the business relationship.

Persons engaged in financial activities must ensure that all the above-mentioned documents are made available rapidly and without delay to the Unit for Combating Money Laundering (MOKAS) and the competent Supervisory Authorities for the purpose of discharging the duties imposed on them by the PSMLA law.

Moreover, credit institutions must apply appropriate systems which will enable them to promptly identify and inform the Central Bank of Cyprus and MOKAS as to whether they maintain or have maintained, during the previous five years, a business relationship with specific natural or legal persons and on the nature of that business relationship.

MOKAS needs to be able to compile a satisfactory audit trail of illicit money and be able to establish the business profile of any account and customer under investigation. To satisfy this requirement, credit institutions must ensure that in the case of a money laundering investigation by MOKAS, they will be able to provide the following information:

- the identity of the account holder(s);
- the identity of the beneficial owner(s) of the account;
- the identity of the authorised signatory(ies) to the account;
- the volume of funds or level of transactions flowing through the account;
- connected accounts;
- for selected transactions:
  - the origin of the funds;
  - the type and amount of the currency involved;
  - the form in which the funds were placed or withdrawn i.e. cash, cheques, funds transfers etc.;
  - the identity of the person undertaking the transaction;
  - the destination of the funds;
  - the form of instructions and authority; and
  - the type and identifying number of any account involved in the transaction.
Recognition and reporting of suspicious transactions / activities

Internal reporting of suspicious transactions and activities

Under Article 27 of the PSMLA law it is an offence for any person who knows or reasonably suspects that another person is engaged in money laundering or financing of terrorism offences, and does not report to MOKAS this information, as soon as is reasonably practical, after it comes to his / her attention.

In the case of credit institutions’ employees, article 26 of the Law recognises that internal reporting to the MLCO will satisfy the reporting requirement imposed by virtue of Article 27. This means that once a credit institution’s employee has reported his / her suspicion to the MLCO he or she is considered to have fully satisfied his / her statutory requirements, under Article 27. Consequently, credit institutions shall ensure that their employees are aware of their legal obligations and know the person (i.e. the MLCO) to whom they should report money laundering or terrorist financing knowledge or suspicion.

All of the Internal Money Laundering Suspicion Reports must be registered and maintained in a separate file by the MLCO.

Once an Internal Money Laundering Suspicion Report has been submitted, all subsequent transactions of the customer concerned should be monitored by the MLCO.

Reports to MOKAS

Article 70 of the PSMLA law requires persons engaged in financial or other business activities to refrain from carrying out transactions which they know or suspect to be related to money laundering or terrorist financing before they report their suspicions to MOKAS in accordance with articles 27 and 69 of the Law. As already mentioned above, the obligation to report to MOKAS includes also any attempt to carry out suspicious transactions. Where refraining from performing a suspicious transaction is impossible or is likely to impede efforts to pursue the beneficiaries of a suspected money laundering or terrorist financing operation, persons carrying out financial or other business activities shall inform MOKAS immediately afterwards.

After submitting the report to MOKAS, credit institutions are expected to adhere to any instructions given by MOKAS and, in particular, as to whether or not to continue the operation of an account or suspend a transaction. It is noted that Article 26(2) (c) of the Law empowers MOKAS to instruct credit institutions to refrain from executing or delaying the execution of a customer’s order without such action constituting a violation of any contractual or other obligation of the credit institution and its employees.

Furthermore, after the submission of a report to MOKAS in relation to suspicious transactions / activities, the account(s) concerned as well as any other connected account(s) should be placed under the close monitoring of the MLCO.

Submission of prudential returns to the Central Bank of Cyprus

According to Article 59(9) the Central Bank of Cyprus may request and collect from persons subject to its supervision information necessary or useful for the performance of its functions and request within a specified deadline, the
provision of information, data and documents. In case of refusal of any person under its supervision to comply with its request for the provision of information within the specified deadline or if the person refuses to give any information or demonstrates or provides incomplete or false or manipulated information, the Central Bank of Cyprus has the power to impose an administrative fine in accordance with the provisions of subsection 6 of the above Article.

According to Section 3 of the CBC’s Directive to Credit Institutions 2013, credit institutions are obliged to apply appropriate measures and procedures depending on the degree of risk to prevent the use of their services for money laundering or terrorist financing.

In that respect, as from March 2013 credit institutions are obliged to submit on a monthly basis data on customers’ deposits and loans by country of permanent residence, regardless of the nationality or citizenship, of the ultimate beneficial owner, as defined in Article 2 of the Law.

The MLCO assesses the data submitted to the Central Bank of Cyprus with the above mentioned monthly statement and, where necessary, investigates any trends which may indicate risks of engagement in transactions or activities of money laundering or terrorist financing and ensures his/her readiness to address questions by the Central Bank of Cyprus.

To that end, the Central Bank of Cyprus requires all credit institutions to adjust their computerised accounting systems so as to be able to report complete and accurate information in the above mentioned returns thereby enhancing the ability of credit institutions to identify and monitor transactions which are considered to involve higher risk of being associated with money laundering activities and terrorist financing.

Registration of a company

The principal statute governing the formation and operation of companies in Cyprus is the Companies Law Chapter 113 of the Laws of Cyprus as from time to time amended (the Companies Law).

Organisational and legal forms of companies

Business entities

Local and foreign investors may establish any of the following legal entities or businesses in the Republic of Cyprus:

- Limited liability companies (private or public);
- General or limited partnerships;
- Business / trade name;
- European Company (SE);
- Branch of overseas companies

The most common type of business entity in Cyprus is the limited liability company.
**Limited liability company**

Under the Companies Law, a company may be **limited by shares** (the liability of members is limited to the unpaid amount of shares held) or **by guarantee** (the liability is limited to the amount that members have agreed to contribute to the company’s assets in the event of the company being wound up).

Companies which are limited by shares may be subdivided into **public companies and private companies**.

**Private company**

A private company means a company which by its articles of association specifically:

- restricts the right to transfer its shares; and
- limits the number of its members to fifty, not including persons who are in the employment of the company and persons who, having been formerly in the employment of the company, were while in that employment, and have continued after the determination of that employment to be, members of the company; and
- prohibits any public subscription to shares or debentures, and
- prohibits the issue of bearer shares

**Public company**

The Companies Law defines a public company as one that is not private. It must fulfil the following criteria:

- It has at least seven members with no maximum;
- It has at least two directors;
- Its articles of association must specify the number and the mode of appointment of directors;
- If directors are appointed by the company's articles, the consent of these directors must be filed on incorporation;
- It must obtain a trading certificate from the Registrar of Companies before it can commence business;
- It must have a statutory meeting and its directors must make a statutory report to its members;
- It must issue a prospectus or statement in lieu of prospectus before issuing any of its shares or debentures to the public;
- Only public companies may issue share warrants
Registration procedure and timing

Physical and legal persons, whether of EU or non-EU origin, are entitled to apply for registering a company in Cyprus.

Under Cyprus legislation, parties interested in registering a limited liability company need the services of a lawyer licensed by the Cyprus Bar Association, or of a service provider cooperating with a licensed lawyer.

The parties typically involved in the company registration process are: the applicant, a Cyprus lawyer, the Registrar of Companies and, optionally, the Cyprus Point of Single Contact (PSC).

Registration steps

The registration process is as follows:

1. Obtaining a lawyer or service provider cooperating with a lawyer
2. Approval of company name (steps 1 & 2 can be done in reverse order. No lawyer is necessary for the name application.)
3. Preparation and submission of registration application to the Registrar
4. Registration processing by the Registrar
5. Post-registration issues

Total cost of registration

The total cost to the applicant consists of certain fixed cost elements (i.e., fees payable to the Companies Registry including fee payable for submission of application for approval of company name and for registration of the company, annual levy) and certain variable cost elements (i.e., contribution tax on the authorised share capital, lawyer or service provider fees). Typically, the applicant describes his specific needs and requirements, and the lawyer or service provider tells him what the total full cost would amount to. For more details, see below.

Description of registration steps

Finding a Cyprus lawyer or service provider

The services of a lawyer are essential since the law only allows lawyers licensed by the Cyprus Bar Association to prepare and sign the Memorandum and Articles of Association of the company and the HE1 form.

Lawyer services can be obtained directly by hiring a particular lawyer or law firm, or indirectly by hiring a service provider (i.e., an accounting firm) that cooperates with a lawyer / law firm. The Cyprus Bar Association (CBA) contains a complete list of lawyers and provides contact details.

Approval of company name

The first task that has to be performed is the submission of an application to have a proposed company name approved by the Registrar. This can be undertaken either directly by the applicant himself, or...
indirectly through his lawyer or service provider.

In the case of **direct application**, the applicant should first go to the website of the Registrar where he can search whether or not the company name he is contemplating already belongs to another company.

Then the applicant should fill **application for approval/ change of name** that is available at the websites of both the Registrar and **the Point of Single Contact**. This form must be submitted to the Registrar or the PSC by hand or post together with payment of the relevant fees **€10.00 or €30.00** under accelerated procedure (payable in cash, cheque or via a bank transfer), although **online submission** is possible from the website of the Registrar of Companies and payment of the relevant fee fully online **by credit card**.

**One Stop Shop & Point of Single Contact**

- 13-15 Andrea Araouzou
- Telephone: +35722409387
- Fax: +35722409432
- Email: ncdermentzoglou@drcor.mcit.gov.cy; psccyprus@mcit.gov.cy

**Registrar of Companies and Official Receiver**

- Corner of Archiepishop Makarios III Avenue and Karpenisiou, 1427 Nicosia
- Telephone: +35722404318
- Fax: +35722404389
- Email: deptcomp@drcor.mcit.gov.cy

In the case of **applying via a lawyer or service provider**, the lawyer or service provider hired by the applicant would request some information from the latter so as to fill the name application form (i.e., proposed company name, scope of business, applicant’s contact details, etc.). After confirming from the Registrar’s website that the proposed name doesn’t already exist, they would fill and submit the form online and pay electronically, as they usually maintain an account with the Registrar.

In the same way as above, they would follow the application and get the result from the Registrar’s website.

It is noted that some lawyers or service providers typically maintain a number of ‘shelf names’, that is to say, company names already approved by the Registrar. These are offered to clients for whom speed is of the essence and are indifferent of the actual name of the company. This means that the applicant can have an approved company name in virtually no time. In any case, it is always possible to change a company name once the company is

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*The first task that has to be performed is the submission of an application to have a proposed company name approved by the Registrar.*

Once submission and payment is effected, the applicant can follow the processing of his application from the Registrar’s website and obtain the result of his application **online**.

One Stop Shop (PSC) accepts only applications with acceleration fees and the One Stop Shop Application Cover for Name Approval is to accompany the above-mentioned application.
incorporated, although this shall require some additional time and cost for a registered company.

With the **accelerated procedure**, the company name registration at the Registrar or the PSC takes approximately **2-5 working days**. With the **normal procedure**, possible only through the Registrar, the duration is **approximately 1 month**.

**Collecting information / documentation, preparing and submitting necessary forms to the Registrar**

This step follows the registration of the company name and requires the services of a lawyer licensed by the Cyprus Bar Association or a service provider cooperating with a lawyer.

Primarily, the lawyer or service provider would ask the client to provide an array of information that is essential for the processing of the registration application. The information the client is asked to provide usually consists of, inter alia, the following:

- A brief description of the main objects of the company, unless the standard Memorandum and Articles of Association are to be used. (Even though it is usual for law firms to use standard M&A for holding companies, some other lawyers may adopt Table A of the Company Law or may draft the M&A according to clients’ instructions);
- The amount of nominal share capital (i.e., €1000) and how it is divided (i.e., 1000 shares of €1 each). If the company to be incorporated is a public company there is a minimum share capital of €25,629 (see the relevant section below).
- The names, addresses, passport details of the proposed directors and secretary of the company;
- The proposed registered address of the company;
- Certified copies of the passports of the ultimate beneficial owners of the company;
- Bank or other references on the good standing of the ultimate beneficial owners;
- The chain of ownership behind the Cyprus Company up to and including the ultimate beneficial owners.
- Any **other information** necessary to satisfy the requirements of the **Know Your Client (‘KYC’) requirement** in order to comply with the Anti-Money Laundering Law and the **guidelines issued by the CBA**.

This information / documentation is essential for the lawyer or service provider in order to be able to correctly and fully fill the four forms that together make the **application package** that will be submitted to the Registrar (in the case of a public instead of private company, a fifth form must be filled (Form HE5), as well as certain other forms). It is also used to enable the opening of a bank account in Cyprus, an option that the lawyer or service provider usually offers and which is often asked by clients.

Once the applicant provides the lawyer or service provider with all the necessary information / documentation that the latter has requested in order to provide the specific services desired by the former, the forms are filled and the application package is ready for submission to the Registrar. The lawyer or service provider arranges for the physical delivery of the application package to the Registrar or the electronic submission of the package and the payment of all the applicable Registrar fees upon submission.
Forms required by the Registrar of Companies

The following documents can be submitted either by hand or online, certified by a registered advocate / lawyer in the Republic of Cyprus:

- Declaration form (HE1);
- Form concerning the registered office address (HE2);
- Details regarding the directors and secretary (HE3);
- Original Memorandum and Articles of Association (which should be signed by the subscribers to the Memorandum whose signatures must be attested by at least one witness; and the lawyer who has drawn up the same)
- One Stop Shop Application Cover for Legal Entities Registration (applicable for submission to One Stop Shop);
- Applicable fees (for details, see the relevant section below)

Application processing and approval by the Registrar of Companies

Once the application package has been submitted to the Registrar and the applicable fees have been paid to it, a process is set in motion, which in the absence of any problems results in the incorporation of the company, the issue of its certificate of incorporation and of a certified copy of its Memorandum and Articles of Association. More precisely, the steps are as follows:

- A desk officer at the Registrar uses the four paper forms submitted to enter the data contained there in an electronic system or if the forms were submitted electronically by the lawyer or service provider then the step below applies directly;
- An Examiner will examine the data to ensure accuracy and completeness. If errors or omissions are detected, then the application cannot proceed until all shortcomings are addressed;
- If the application successfully passes the examination step, the company is issued a Certificate of Incorporation which indicates the Company name, Registration Number and date of incorporation, thus bringing the company into existence as a legal person and issues a certified copy of its Memorandum and Articles of Association;
- Optionally (and at the payment of additional fees), the client can also obtain, inter alia, certificates either in Greek or in English as to the registered office, the directors and secretary and the shareholders of the company, English translation of the Memorandum and Articles of Association of the company and of its certificate of incorporation;
- The Registrar then gives the documentation to the applicant or places the same in the lawyers’ or service provider’s tray kept at the Registrar, or sends them to a physical address, depending on the applicant’s preference
Company registration is completed within approximately **one month** or **3 working days under accelerated procedure** provided there is normal workload and no errors or omission in the forms submitted by the applicant or through online submission from the date that the application was duly submitted.

A **certificate of incorporation** given by the Registrar in respect of any association shall be conclusive evidence that all the requirements of the Companies Law in respect of registration and of matters precedent and incidental thereto have been complied with, and that the association is a company authorized to be registered and duly registered under this Law.

**Post-registration issues (Other registration requirements)**

All companies must register with the Inland Revenue Department and obtain a tax identification number.

They may also need to register for VAT, as well as with the employers’ register of the social insurance services with the Ministry of Labour.

**Re-domiciliation of registered office**

Companies registered in any country can transfer their registered office in the Republic of Cyprus, provided that the legislation of the country of origin allows for such transfer.

The following documents can be submitted, by hand or by mail, through a registered advocate / lawyer in the Republic of Cyprus, to the Registrar of Companies and Official Receiver:

- **Application of foreign company (ME1)**;
- **Affidavit statement by authorised representative form (MEA)**;
- Fee of **€105.00** plus **€20.00** for filling accompanied documents, plus an optional **€100.00** for accelerated procedure (payable in cash, cheque or bank transfer).

The registration procedure is completed within approximately **4 working days** from the date the application was duly submitted.
Requirements to the documents needed for registration

Memorandum and Articles of Association

The Memorandum of Association and the Articles of Association together form the constitution of a Cyprus company. They are a matter of public record and available for inspection by the public at the offices of the Registrar. The memorandum and articles of association, when registered, bind the company and its members to the same extent as if they had respectively been signed and sealed by each member and contains covenants on the part of each member to observe all their provisions.

A Memorandum and Articles of Association must be submitted to the Registrar of Companies, with details of the share capital, directors, secretary and registered office.

The memorandum and articles of association and any changes thereto need to be filed with the Registrar in the Greek language.

On the registration of the memorandum of a company the Registrar shall certify under his hand that the company is incorporated as a limited company.

Memorandum of Association

The memorandum of every company must state:

- name of the company:
  - in the case of a private company, the name of the company with the word ‘Limited’ or ‘Ltd’ as the last word of the name;
  - in the case of a public company, the name of the company with the words ‘Public Company Limited’ or ‘Public Company Ltd’ or ‘Public Co. Ltd’ or ‘Plc’ or ‘Public Limited’ or ‘Public Ltd’ as the last words of the name
- the objects of the company

The memorandum of a company where limited by shares or by guarantee must state that the liability of its members is limited.

The memorandum of a company limited by guarantee must also state that each member undertakes to contribute to the assets of the company in the event of its being wound up while he is a member, or within one year after he ceases to be a member, for payment of the debts and liabilities of the company contracted before he ceases to be a member, or of the costs, charges and expenses of winding up, and for adjustment of the rights of the contributories among themselves, such amount as may be required, not exceeding a specified amount.
In the case of a company having a share capital:

- the memorandum must also state the amount of share capital with which the company proposes to be registered and the division thereof into shares of fixed amount;
- no subscriber of the memorandum may take less than one share;
- each subscriber must write opposite to his name the number of shares he takes.

The memorandum must bear the same stamp as if it were an agreement, and must be signed by each subscriber in the presence of at least one witness who must attest the signature.

**Articles of Association**

There may in the case of a company limited by shares, and there shall in the case of a company limited by guarantee, be registered with the memorandum articles of association signed by the subscribers to the memorandum and prescribing regulations for the company.

In the case of a company limited by guarantee, the articles must state the number of members with which the company proposes to be registered.

Articles of association may adopt all or any of the regulations contained in **Table A in the First Schedule** to the Companies Law.

**Form of Memorandum and Articles**

The form of the memorandum of association of a company limited by shares, the memorandum and articles of association of a company limited by guarantee and having a share capital shall be respectively in accordance with the forms set out in Tables B, C, and D, in the First Schedule to the Companies Law, or as near thereto as circumstances admit.

- must contain regulations which define the number and the method of appointment of the directors, who are entrusted with the management of the company and its representation against third parties;
- may contain regulations which define the allocation of responsibilities between the directors.

The articles of a public company:

- must contain regulations which define the number and the method of appointment of the directors, who are entrusted with the management of the company and its representation against third parties;
- may contain regulations which define the allocation of responsibilities between the directors.
Share capital

Private company

There is no minimum share capital for a private company.

However, the share capital which a Cyprus company proposes to issue must be divided into shares of a fixed amount. Such shares must be issued with a par value, and in registered form. Shares without par value and shares in bearer form are not permitted under Cyprus law.

The capital may be paid in cash or in kind. Shares in a Cyprus company are personal property.

Public company

Under section 4A (1) of the Companies Law, the minimum capital of a public company, which has been offered for subscription, shall be twenty-five thousand six hundred and twenty nine euros.

The capital mentioned in subsection (1) of section 4A is mandatory to exist at the latest, at the time when the issuance of the certificate is requested from the Registrar.

Under section 31A of the Companies Law, a company which has been incorporated as a public company and which does not increase its offered for subscription share capital to the level provided in section 4A of the Companies Law, may be converted into a private company, provided it amends its articles, so that it fulfils the conditions of subsection (1) of section 29 of the Law.

Requirements to company's name

The proposed name of the company must be approved by the Registrar before the incorporation / registration process commences and must include the word ‘Limited’ or its abbreviation ‘Ltd’ as the last word of the name.

The name reservation can usually be confirmed within 10 working days. The reservation lasts for a period of 6 months and may be renewed.

It is noted that no company shall be registered by a name which in the opinion of the Registrar is undesirable or which resembles another registered name.

Requirements to the members, directors and secretary

Shareholders

Under the relevant legislation there must be at least one shareholder, for whom the following information is required to be disclosed to the Registrar of Companies:
A shareholder may, however, hold its shares as nominee for another person. Shareholders can either be individuals or legal corporate entities.

The subscribers of the memorandum of a company shall be deemed to have agreed to become members of the company, and on its registration shall be entered as members in its register of members kept by the company, along with the number of shares held by each member, distinguishing each share by its number so long as the share has a number and, in respect of any share that is not fully paid, the amount paid or agreed to be paid on the shares.

Where two or more persons hold one or more shares in a company jointly, they shall be treated as a single member.

Bearer shares are not permitted under Cyprus law, but shares may be registered in the name of a nominee. However, it is noted that no notice of any trust, expressed, implied or constructive, shall be entered on the register of members of the company, or be receivable by the Registrar, in the case of companies registered in Cyprus.

Directors

Under section 170 of the Companies Law, every company other than a private company shall have at least two directors and every private company shall have a director.

Under section 171 of the Law, every company shall have a secretary and a sole director shall not also be secretary provided that in the case of a limited liability company with one and only member the sole director may also be the secretary.

The number of directors may be determined by the articles of association; directors need not be residents of Cyprus. However, in order for a Cyprus company to be in a position to take advantage of the double tax treaties in relation to Cyprus, it must be a tax resident of Cyprus. In order for a Company to be a tax resident of Cyprus it must have its management and control in Cyprus. What management and control is has not been judicially defined but, as a minimum, the following must be complied with:

- Board meetings should take place in Cyprus, and
- The majority of the board of directors must be Cyprus residents

On the application for registration of the memorandum and articles of a company the applicant shall deliver to the registrar a list of the persons who have consented to be directors of the company, and, if this list contains the name of any person who has not so consented, the applicant shall be liable to a fine not exceeding four hundred twenty seven euros.

The first directors are appointed by the subscribers to the memorandum of association and thereafter are elected either by the members or, if the articles of association permit, by the other directors. A director may be removed by ordinary resolution of the members of which special notice must be given.

A company must maintain a register or its directors and secretaries. In the case of an individual director, the said register must contain the names, residential address, nationality, business occupation and particulars of any other directorships held by the di-
rector, other than directorships held by a director in companies of which the company is a wholly owned subsidiary; in the case of a corporate director, the register must set forth its corporate name and registered or principal office.

Under section 180 of the Companies Law, where:

- a person is convicted of any offence in connection with the promotion, formation or management of a company; or

- in the course of winding up a company it appears that a person:
  - has been guilty of any offence for which he is liable, whether he has been convicted or not, under section 311; or
  - has otherwise been guilty, while an officer of the company, of any fraud in relation to the company or of any breach of his duty to the company,

the Court may make an order that that person shall not, without the leave of the Court, be a director of or in any way, whether directly or indirectly, be concerned or take part in the management of a company for such period not exceeding five years as may be specified in the order.

Directors need not hold any shares in the company in order to act as such, unless required by the articles.

Auditors may not be directors of companies which they audit.

Company Secretary

A Cyprus company must appoint a secretary. The appointment of the secretary is made by the directors in accordance with the Articles of Association. For practical purposes a body corporate may be appointed secretary.

It is noted however, that except in the case of a limited liability private company with one and only member, the sole director of the said company cannot be its secretary as well.

The register of directors and secretaries must set forth the names and addresses of each individual secretary; in the case of a corporation, its corporate name and registered office must be set forth. Assistant, deputy and / or acting secretaries may also be appointed.

Registered office

Under section 102 (1) of the Companies Law, a company shall, as from the day on which it begins to carry on business or as from the fourteenth day after the date of its incorporation, whichever is the earlier, have a registered office in the Republic of Cyprus to which all communications and notices may be addressed.

Notice of the situation of the registered office, and of any change therein, shall be given within fourteen days after the date of the incorporation of the company or of the change, as the case may be, to the registrar of companies, who shall record the same.
Bank accounts

After the Company has been registered, the company can open one or more bank accounts with Cypriot and / or foreign banks.

Cyprus law firms will usually be introducers to a number of banks and will be able to manage this process on behalf of the beneficial owner of the company.

Banks usually require copies of the corporate documents, certified true copies of the passports of the signatory and nominees, the Board’s resolution and the signed application opening forms. Most Cypriot banks offer internet banking.

State fees

Various fees applicable to company registrations must be paid to the Registrar of Companies. The fees are payable in cash, by cheque or bank transfer.

**Application for approval / change of name fee**

€10.00 or €30.00 under accelerated procedure.

**Capital duty (subscription fee plus subscription tax)**

On incorporation of a Cyprus registered company capital duty is payable to the Registrar of Companies:

<table>
<thead>
<tr>
<th>Authorised share capital</th>
<th>€105 plus 0,6% on the authorised share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued share capital</td>
<td>There is no capital duty payable if the shares are issued at their nominal value. There is a €20 flat duty if the shares are issued at a premium</td>
</tr>
</tbody>
</table>
Form submission fees

The fees of €60 are charged for submitting HE1, HE2 and HE3 forms.

Accelerated registration fee

This is an optional fee of €100 charged in the cases where accelerated registration procedure is requested by the applicant.

Fees for additional documents (optional)

Fees charged in case of issue of the following additional documents are as follows:

- Certificate of registered address - €40
- Certificate of directors and secretary - €40
- Certificate of shareholders - €40
- English translation of the certificate of incorporation - €40
- English translation of the Memorandum and Articles of Association of the company certified by the Companies Registry - €60

Annual Fee

Under section 391 (1) of the Companies Law, all registered companies shall be obliged to pay an annual fee of three hundred and fifty euros (€350.00) to the Registrar of Companies. Existing registered companies are obliged to pay the fee not later than the 30 June of each year.
General requirements to the accounting and reporting

Keeping of books of account

Directors of a limited liability company shall cause to be kept books of accounts which are considered necessary for the preparation of financial statements in accordance with the Companies Law.

Under section 141 (2) proper books of account shall not be deemed to be kept, if the books which are kept are not sufficient for the presentation of an accurate and fair picture of the affairs of the company as well as an explanation as to its transactions.

The books of account shall be kept at the registered office of the company or at such other place as the directors think fit, and shall at all times be open to inspection by the directors provided that if books of account are kept at a place outside the Republic of Cyprus there shall be sent to, and kept at a place in, the Republic of Cyprus and be at all times open to inspection by the directors such accounts and returns with respect to the business dealt with in the books of account so kept as will disclose with reasonable accuracy the financial position of that business at intervals not exceeding six months and will enable to be prepared in accordance with the Companies Law the company’s balance sheet, its profit and loss account or income and expenditure account, and any document annexed to any of those documents giving information which is required by this Law and is thereby allowed to be so given.

Annual and consolidated financial statements

The directors shall cause to be made, for every company, a complete set of financial statements, as this set is prescribed by the International Accounting Standards.

Each company which has subsidiaries shall consolidate its financial statements with the financial statements of its subsidiaries as prescribed by the International Accounting Standards. Small sized groups shall be exempt from the obligation to prepare consolidated financial statements.

The term ‘small sized group’ means a group of companies, of which the companies subject to consolidation:

- are not public;
- the preparation of their consolidated financial statements is not governed by any other legislation; and
- they satisfy, in their entirety, at the date of closing of the balance sheet of the parent company, two of the following three criteria:
  - The total of the assets appearing in the balance sheet (and without deducting the liabilities) does not exceed the amount of 17,500,000 (seventeen million five hundred thousand) Euros;
  - The net level of the turnover does not exceed the amount of 35,000,000 (thirty five million) Euros, and
  - The average number of employees at the relevant period does not exceed two hundred fifty

Groups of companies of which the ultimate subsidiary or parent companies publish consolidated financial statements on the basis of Generally Recognized Accounting Principles shall be exempt from the obligation to prepare consolidated financial statements.
Financial statements shall be presented at the latest eighteen months after the incorporation of the company and subsequently once at least in every calendar year.

The directors of every company shall have a collective duty towards it to ensure that the annual financial statements and, as the case may be, the annual consolidated financial statements shall be prepared and published in accordance with the requirements of this Law and in accordance with the International Accounting Standards.

The financial statements shall present a true and fair picture of the company.

The presentation of a true and fair picture shall be achieved through the strict application of the International Accounting Standards, the compliance with which is obligatory for all companies.

Directors’ Report

There shall be attached to the financial statements a report by the directors in relation to the status and the foreseeable development of the affairs of the company or the group.

The directors’ report shall provide information in relation to, at least, the following:

- any change during the financial year in the nature of the business of the company or in its subsidiaries or in the classes of business in which the company has an interest, whether as a member of another company or otherwise, and especially in any takeover or merger which has been realized or intended, whether active or passive;
- any change to the share capital;
- any significant change to the structure, the allocation of responsibilities, or the compensation of the board of directors;
- any activities in the area of research and development to the extent that the relevant data do not already arise from the financial statements;
- any important event that occurred after the expiry of usage;
- the foreseeable development of the company;

Financial statements and accounting books and records must be kept for a period of six years from the end of the relevant financial year.

Financial statements must be in the Greek language.
- the existence of branches of the company;
- a fair review of the development and progress of the activities of the company and its position, as well as a description of the main risks and uncertainties it is facing.

In every case, the directors’ report shall be accompanied by a reasoned recommendation in relation to the distribution of profits, the absorption of losses and the creation of predictions.

**Compulsory auditing of financial statements and directors’ report**

The following companies shall in accordance with the provisions of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law 2009 submit their financial statements to an auditor for auditing:

- every company required by the Companies Law to prepare consolidated financial statements;
- every public limited-liability company;
- every private limited-liability company not being a small sized company

These companies shall also submit to the auditor the directors’ report for the purpose of auditing its compatibility with the submitted financial statements.

For this purpose, the term ‘small sized company’ means a company in which at least two of the three sizes below shall not exceed throughout the financial year the following prices:

- total of assets presented in the balance sheet (and without having subtracted the liabilities) at 34,172.029 euros;
- net turnover of 70,052.659 euros;
- average number of employees, fifty persons

provided that the company which initially fulfils the above-mentioned conditions loses its designation as a small sized company only if it exceeds the above-mentioned criteria during two consecutive financial years.

The financial statements and the directors’ report which have not been audited in accordance with the provisions of section 152A of the Companies Law shall be deemed not to have been published under subsection (4) of section 142 of this Law.

**Annual Return**

Every company having a share capital shall, once at least in every year, make a return containing with respect to the registered office of the company, registers of members and debenture holders, shares and debentures, indebtedness, past and present members and directors and secretary, the matters specified in Part I of the Sixth Schedule of the Companies Law, and the said return shall be in the form set out in Part II of that Schedule or as near thereto as circumstances admit.

Every company not having a share capital shall, once at least in every calendar year, make a return stating:

- the address of the registered office of the company;
- in a case in which the register of members is, under the provisions of the Companies Law, kept elsewhere than at that office, the address of the place where it is kept;
- in a case in which any register of holders of de-
bentures of the company is, under the provisions of the Companies Law, kept elsewhere than at the registered office of the company, the address of the place where it is kept;

- all such particulars with respect to the persons who at the date of the return are the directors of the company and any person who at that date is secretary of the company as are by this Law required to be contained with respect to directors and the secretary respectively in the register of directors and secretaries of a company.

If a company fails to comply with requirements of sections 118 and 119 of the Companies Law, the company and every officer of the company who is in default shall be liable to a default fine.

The annual return must be completed within forty-two days after the annual general meeting for the year and the company must forthwith forward to the Registrar of Companies a copy signed both by a director and by the secretary of the company.

There shall be annexed to the annual return copies of all documents presented to the general meeting of the company in accordance with subsection (1) of section 152 of the Companies Law.

A private company shall send with the annual return required by section 118 of the Companies Law a certificate signed both by a director and by the secretary of the company that the company has not, since the date of the last return, or, in the case of a first return, since the date of the incorporation of the company, issued any invitation to the public to subscribe for any shares or debentures of the company, and, where the annual return discloses the fact that the number of members of the company exceeds 50, also a certificate so signed that the excess consists wholly of persons who under paragraph (b) of subsection (1) of section 29 are not to be included in reckoning the number of fifty.

Taxation

Registration with the tax authority

All companies established in the Republic of Cyprus are liable to register with the Inland Revenue Department and obtain a Tax Identification Code for legal persons.

Companies resident in Republic of Cyprus for tax purposes, that is, companies whose management and control are exercised in the Republic of Cyprus, are liable to tax in respect of worldwide income.

Legal persons not resident in the Republic of Cyprus for tax purposes are liable to tax only in respect of Cyprus source income but they may wish to be taxed as if they were so resident, provided that they have a permanent establishment in the Republic of Cyprus.

The IRD 162 form for the registration of new taxpayers or amendment of taxpayer’s data (non-individuals) can be submitted by legal persons either electronically through the PSC Cyprus Portal or by post/hand to the PSC Cyprus office or to the District Income Tax Offices.

The application in case of a legal person should be accompanied by the following documents:

- Copy of certificate of incorporation
Obligations and Supervision

Legal persons that have income from business (profits or benefits), leases, intellectual property or patent rights, fees or other profits arising from property and goodwill are required, for each fiscal year, to issue invoices and receipts relating to the transactions and receipts.

Legal persons whose annual turnover exceeds €70,000 are obliged to keep books and records which shall be used to prepare accounts, which must be audited by certified auditors, and submit Company Income Tax Declaration (IR4) by the 31st of December following the end of the taxable year. Moreover, legal persons are obliged to pay the relevant tax by self-assessment using (Form I.R. 158A) by 1st August of the year following the tax year.

Employers are obliged to submit Employers Declaration Form (I.R.7A) by the 30th of April following the end of the taxable year and Monthly Employers Statement (I.R.61A) of Tax and Contributions withheld for employees.

Income Tax Returns can be submitted electronically through the TAXISnet Service for those persons who have access codes. Returns submitted via the TAXISnet Service have a three month extension from the normal due date. Applications for access can be made using the forms available on the service’s website. Additionally for taxpayers who have a T.I.C. and have had at least one assessment, for years from 2007, raised by the department, an electron application for access codes can be made via the TAXISnet Service.

The Income Tax Commissioner is authorised, by the Income Tax legislation, to request from any person evidence or solemn statement as per the income earned, that may be deemed necessary.

Corporate tax

From 2013 companies pay tax on all their income at the rate of 12.5%.

Taxable income

Corporation tax is imposed on business profits, interest, discounts, rents, royalties, remunerations or other profits from property and net consideration in respect of trade goodwill. Expenses incurred for the production of income are tax deductible. Losses brought forward or surrendered by other group companies (group relief) can be set off against taxable profits.
Tax exemptions

Tax exemptions apply to the following income:

- Profits from the sale of shares and other securities
- Dividend income
- 100% of passive interest, i.e. interest not arising from the ordinary activities or closely related to the ordinary activities of the company
- Profits of a permanent establishment abroad, provided the foreign tax is not significantly lower than Cyprus tax and the permanent establishment does not derive more than 50% of its total income from investments

Tax losses

The tax loss incurred during a tax year and which cannot be set off against other income is carried forward subject to conditions and set off against the profits of the next five years. Losses cannot be carried back.

The current year loss of one company can be set off against the profit of another, subject to conditions, provided the companies are Cyprus tax resident companies of a group.

Group is defined as:

- One Cyprus tax resident company holding directly or indirectly at least 75% of the voting shares of another Cyprus tax resident company, with any intermediate companies also being Cyprus tax residents;
- Both of the companies are at least 75% (voting shares) held, directly or indirectly, by another third company

Reorganisations

Transfers of assets and liabilities between companies can be effected without tax consequences within the framework of a reorganisation and tax losses can be carried forward by the receiving entity.

Reorganisations include:

- mergers
- demergers
- partial divisions
- transfer of assets
- exchange of shares
- transfer of registered office of a European company (SE) or a European cooperative company (SCE)

Tax year

The tax year ends on 31 December. Companies may use a different accounting year, in which case the taxable profit must be apportioned between the two tax years.
Corporate tax returns are generally due for filing by 31 March of the second year following the tax year and must be submitted electronically (i.e. for year ending 31 December 2014 the tax return is due for filing by 31 March 2016).

Advance payments of tax are due during the tax year by 31 July and 31 December. Any outstanding tax must be paid by 1 August of the following year.

**Special contribution for defence**

All residents of the Republic are subject to special defence contribution imposed on dividend income, ‘passive’ interest income and ‘passive’ rental income earned by Cyprus tax residents. Non-tax residents are generally exempt from special contribution for defence.

It is charged at the rates shown below:

<table>
<thead>
<tr>
<th>Sources of Income</th>
<th>Rates for Legal Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend income from Cyprus tax resident companies</td>
<td>0%</td>
</tr>
<tr>
<td>Dividend income from non-Cyprus tax resident companies</td>
<td>0%</td>
</tr>
<tr>
<td>Interest income arising from the ordinary activities or closely related to the ordinary activities of the business</td>
<td>0%</td>
</tr>
<tr>
<td>Other interest income</td>
<td>30%</td>
</tr>
<tr>
<td>Rental income less 25%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Dividends received by a Cyprus tax resident company from other Cyprus tax resident companies are excluded from all taxes, unless they are indirectly declared after the lapse of four years from the end of the year in which the profits were generated, in which case they may be subject to Special contribution for defence at 17%. Dividends which emanate directly or indirectly out of such dividends on which special contribution for defence was previously suffered are exempt.

The exemption on dividend income from non-Cyprus tax resident companies does not apply if:

- More than 50% of the paying company’s activities result directly or indirectly in investment income and
- The foreign tax is significantly lower than the tax burden in Cyprus. The tax authorities have clarified through a circular that ‘significantly lower’
means an effective tax rate of less than 6.25% on the profit distributed.

When the exemption does not apply, the dividend income is subject to special contribution for defence at the rate of 17%.

Interest income arising from the ordinary activities or closely related to the ordinary activities of the business is subject to corporation tax.

The Special contribution for defence rate of 30% on the other interest income is effective for interest received or credited from 29 April 2013 onwards.

Interest income from Cyprus government savings bonds and development bonds and all interest earned by a provident fund is subject to Special contribution for defence at the rate 3% (instead of 30%).

For rental income where the tenant is a Cyprus company, partnership, the state or local authority Special contribution for defence on rental income is withheld at source and is payable at the end of the month following the month in which it was withheld. In all other cases the Special contribution for the defence on rental income is payable by the landlord in 6 monthly intervals on 30 June and 31 December each year.

For other interest and dividends paid to Cyprus tax residents any Special contribution for defence due is withheld at source and is payable at the end of the month following the month in which they were paid.

However, Special contribution for defence due on dividends, interest and rental income from abroad is payable in 6 month intervals on 30 June and 31 December each year.

Rental income is also subject to corporation tax.

Foreign taxes paid can also be credited against the Special contribution for defence tax liability.

Capital gains tax

Capital gains tax is imposed at the rate of 20% on capital gains arising from the disposal of immovable property (real estate) situated in Cyprus, including gains from the disposal of shares of companies not listed on a recognised stock exchange which own immovable property situated in Cyprus. The disposal of shares listed in recognised Stock Exchanges is exempt from Capital gains tax.

Determination of capital gain

Liability is confined to gains accruing since 1 January 1980. The costs that are deducted from gross proceeds on the disposal of immovable property are its market value at 1 January 1980, or the costs of acquisition and improvements of the property, if made after 1 January 1980, as adjusted for inflation up to the date of disposal on the basis of the consumer price index in Cyprus.

Expenses that are related to the acquisition and disposal of immovable property are also deducted, subject to certain conditions e.g. transfer fees, legal expenses etc.
**Value Added Tax (VAT)**

VAT is levied on the supply of goods and services in Cyprus, the intra-EU acquisition of goods, and on the importation of goods.

**VAT rates**

The legislation provides for the following four tax rates:

- Zero rate (0%)
- Reduced rate of five per cent (5%)
- Reduced rate of nine per cent (9%)
- Standard rate 19% as from 13 January 2014

**Exemptions**

Certain goods or services are exempt from VAT. They include:

- the letting of immovable property (the letting of immovable property with the right of purchase is not exempt);
- **most banking and financial services** and insurance services;
- most hospital, medical and dental care services;
- certain cultural educational and sports activities;
- supplies of real estate (except supply of new buildings before their first use) including supplies of land and of second-hand buildings;
- postal services provided by the national postal authority;
- lottery tickets and betting coupons for football and horse racing;
- management services provided to mutual funds
VAT Registration

Every legal person, established in the Republic of Cyprus, is liable to register for VAT, by the end of the month, if the annual turnover of VAT taxable goods and services supplied in the previous 12 months has exceeded €15,600 or at any time if there are reasonable grounds for believing that the annual turnover of VAT taxable goods and services supplied will exceed €15,600 within the next thirty days. A person not liable for VAT registration may register voluntarily.

Legal persons, not permanently established in the Republic of Cyprus, may be subject to registration in the VAT Register, if the value of the taxable transactions carried out in the Republic of Cyprus exceeds the amount of €15,600. Otherwise, legal persons, not permanently established in Cyprus, may voluntarily register in the VAT Register if they carried out taxable activities in the Republic of Cyprus.

Registration Procedure

The application for registration in the VAT Register (Form VAT 101) can be submitted either electronically through the PSC Cyprus Portal or by post/hand to the One Stop Shop or the local VAT Office. The contact details are provided in related documents.

The application should be accompanied by the following documents:

- copy of certificate of incorporation, copy of certificate of registered office address, copy of certificate of directors and secretary and copy of certificate of shareholders (in case of a company);
- copy of evidence that the legal person conducts taxable activities in Cyprus (i.e. copies of contract, invoices related to the business activities);
- questionnaire for the registration of international business entities (registered companies in the Republic of Cyprus whose main business activities are carried out abroad)

The VAT registration number is issued within one or two days. The certificate of registration is provided within 5 to 10 days.

Group registration

Single registration for a group of companies incorporated in Cyprus is now possible. For this purpose companies are considered a group if:

- One company controls each one of the other companies
- A person (legal or natural), controls all the other companies
- Two or more individuals carrying out a business as a partnership control all the other companies

Group registration means that transactions between members of the group are disregarded for VAT purposes. Only one VAT return is required to be submitted for all the companies in the group, instead of one VAT return for each company.
Obligations and Supervision

Persons registered for VAT are obliged to:

- submit VAT Tax Declarations and pay the tax due by the 10th day following the end of the month after the taxable period;
- issue VAT invoices for transactions made to other taxable persons in the Republic of Cyprus or any person in other EU member states;
- issue VAT receipts for transactions made to not taxable persons in the Republic of Cyprus;
- keep books and records and preserve them, for at least six (6) years after the completion of the entries or deeds written therein, of all the taxable supplies of goods or services made or received, during the course of carrying out of business activities, and all the intra-community transactions made. Books and records must be kept up-to-date, with adequate information and in a manner that enables taxable persons to use them to calculate the payable or claimable amount of tax and fill in tax declarations.

The VAT Commissioner and authorized VAT officers are empowered by the VAT legislation, among others, to enter and inspect premises, request information and documents, or take samples of goods.

VAT returns and payment / refund of VAT

VAT returns must be submitted quarterly and the payment of the VAT must be made by the 10th day of the second month that follows the month in which the tax period ends.

Where in a quarter input tax is higher than output tax, the difference is refunded or is transferred to the next VAT quarters.

As from 19 February 2013 taxpayers who make a claim for VAT refund will be entitled to repayment of the principal amounts together with interest in the event that the repayment is delayed for a period exceeding four months from the date of the submission of the claim.

The grace period for the VAT Authorities to repay the refundable amounts is extended by four months (i.e. eight months in total) in the event that the Commissioner is carrying out an investigation in relation to the submitted claim.

Immovable property tax

Immovable Property Tax is imposed on the market value as at 1 January 1980 and applies to immovable property located in Cyprus owned by the taxpayer on 1 January of each year. This tax is payable on 30 September each year. A discount of 10% of the tax due is available if the tax is paid by 31 August each year.
Physical and legal persons are both liable to Immovable Property Tax.

**Social insurance**

The rate of Social insurance contributions is applied to a maximum level of emoluments. The maximum level of emoluments for 2015 and 2014 is €54,396 (weekly €1,046/monthly €4,533).

The rate of 7.8% applies for both the employer and the employee up to 31 December 2018.

**Other employer's contributions**

The employer makes the following other contributions based on employee's emoluments:

<table>
<thead>
<tr>
<th>Contribution</th>
<th>%</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social cohesion fund</td>
<td>2.0</td>
<td>Social cohesion fund is calculated on total emoluments and has no maximum level</td>
</tr>
<tr>
<td>Redundancy fund</td>
<td>1.2</td>
<td>Restricted to the maximum level of emoluments as with the social insurance contributions</td>
</tr>
<tr>
<td>Industrial training fund</td>
<td>0.5</td>
<td>Restricted to the maximum level of emoluments as with the social insurance contributions</td>
</tr>
<tr>
<td>Holiday fund (if not exempt)</td>
<td>8.0</td>
<td>Restricted to the maximum level of emoluments as with the social insurance contributions</td>
</tr>
</tbody>
</table>

**Stamp duty**

Stamp duty is payable on various legal documents.

- Up to the first €5,000 – 0
- €5,001 – €170,000 - 0.15%
- Over €170,000 - 0.2% (capped at a maximum of €20,000)
Stamp duty is also payable, once only, on the authorised share capital of companies. Note that there is no stamp duty on share premium.

Transactions which fall within the scope of reorganisations are exempt from stamp duty. Also, documents relating to assets situated outside Cyprus or business affairs that take place outside Cyprus are exempt from stamp duty.

**Capital duty**

Capital duty is payable on authorised share capital and the issuance of shares at a rate of 0.6%

**Tax authorities**

As from the 1st of July 2014 the [Inland Revenue Department](#) has merged with the VAT Service to form the [Tax Department](#).
List of advisors (registration and authorisation of financial businesses)

- Andreas Neocleous & Co LLC
- Antis Triantafyllides & Sons
- Chrysses Demetriades & Co
- Clerides, Anastassiou, Neophytou LLC
- Dr. K. Chrysostomides & Co LLC
- George Z. Georgiou & Associates LLC
- Michael Kyprianou & Co, LLC
- Patrikios Pavlou & Associates LLC
- Chryssafinis & Polyviou LLC
- Georgiades & Pelides
- L Papaphilippou & Co
- George L Savvides & Co
- Ioannides Demetriou LLC
- Tassos Papadopoulos & Associates
- Stelios Americanos & Co

Useful links and data sources

- The Central Bank of Cyprus
- Co-operative Societies Supervision and Development Authority (CSSDA)
- The Unit for Combating Money Laundering (MOKAS)
- The Law Office of the Republic of Cyprus
- Office of the Law Commissioner
- The Department of the Registrar of Companies
- Tax Department
- Ministry of Finance
- TAXISnet service
- Ministry of Commerce, Industry and Tourism of the Republic of Cyprus
- The Ministry of Labour, Welfare and Social Insurance
- The Association of Cyprus Banks (ACB)
- The Cyprus Financial Services Firms Association (C.F.S.F.A)
- The Cyprus Bar Association
- The Cyprus Investment Promotion Agency (CIPA)
- The Web Portal of the Republic of Cyprus
- The Point of Single Contact (PSC Cyprus)
- Practical guide to doing business in Europe
Other sources

- EUR-Lex (Access to European Union law)
- European Union (Official website)
- European Commission
- The European Banking Authority (EBA)
- The IBA Anti-Money Laundering Forum
- PwC Cyprus
- Andreas Neocleous & Co LLC
- Anastasios Antoniou LLC
- A.G. Paphitis & Co. LLC (financial regulatory, compliance and advisory services)
- Tornaritis Law Firm
- Cyprus Lawyers Portal
- MAP S.Platis (regulatory consulting firm for financial services companies)
- Financial Consultants International (business consulting and advice in the areas of finance)
- UHY Antonis Kassapis Ltd (accountants, auditors and business consultants)
- Baker Tilly International (accountancy and business advisory firm)
- Cyprus Profile
- Country Meters