

## PRESS RELEASE

### CySEC strengthens its regulatory role

*New initiatives by CySEC will further ensure investors protection*

**Nicosia 01 February 2022** – With the aim of ensuring a stronger investor protection framework and the smooth operation of the market, the Cyprus Securities and Exchange Commission (CySEC) is enhancing its supervisory capabilities through the use of new technologies and other tools. This was the focal point of CySEC Chairman Dr George Theocharides’ speech delivered during a press conference on Tuesday, 1 February 2022, focusing on CySEC’s goals for 2022 and the sector’s trends and developments in 2021.

Following a brief overview of the past year, Dr Theocharides pointed to the continued growth of the investment sector. By the end of the year, CySEC had 806 entities under its supervision, compared to 788 at the end of 2020, recording an increase of 2.28%, with interest in the sector remaining steady.

#### **Supervisory Reviews**

CySEC’s Department of Supervision conducted a total of 308 desk-based and thematic reviews of Cyprus Investment Firms (CIFs). CySEC also evaluated the desk-based reviews it held in 2020 and reviewed 18 annual compliance and internal audit reports and one Internal Capital Adequacy Assessment Process (ICAAP) report. At the same time, CySEC monitored the marketing communications of 27 CIFs.

The Supervision Department also carried out 460 desk-based and on-site reviews of the documents of Collective Investment Funds and a desk-based review of the Central Securities Depository (CSD).

In 2021, the AML/CFT Department carried out checks to evaluate the adequacy and appropriateness of specific measures and procedures implemented by supervised entities. In 2021, the organisation conducted on-site reviews into 60 supervised entities. The Department also reviewed 478 annual compliance reports and the Internal Audits, including examining the practices of the Boards of Directors of 239 CIFs, ASPs and AIFs. It also received information from 431 supervised entities, based on Circular 416 of 11/2020, on the “Business relationship with persons who have acquired Cypriot citizenship under the Cyprus Investment Programme(CIP)”.

The Market Surveillance and Investigations Department investigated a number of cases in relation to the violation of the current legislation by issuers, CIFs and ASPs proceeding with 4 entry - investigations and completed 41 investigations. At the end of the year, there were an additional 30 ongoing investigations. Four cases were sent to the Attorney-General of the Republic who will determine whether any criminal offences were committed by the companies or natural persons.

**Fines totalling €1.34m**

Referring to the administrative sanctions that were imposed as a result of investigations and supervisory reviews, Mr. Theocharides stressed that fines totalling over €1.34m were applied, with the vast majority relating to fines and settlements for CIFs that violated the law governing the provision of investment services, known as MiFID II.

Over the past two years, CySEC has imposed over €4.53m in fines, €3m of which were imposed on CIFs. A total of €31m fines have been imposed over the past nine years. In 2021, CySEC suspended the operating license of 6 CIFs, revoked the operating license of 4 CIFs and called more than 70 supervised entities to take specific actions within a specific timeframe to remediate weaknesses and/or omissions that were identified during the supervisory checks.

### **Strengthened supervision**

Through the adoption of additional tools and the implementation of strategies that enhance its efficiency and effectiveness, CySEC aims to strengthen its ability to identify bad practices in a timely fashion, working proactively to prevent their implementation.

CySEC's enhanced supervisory approach includes:

- **The use of new technology** to monitor and supervise the marketing and social media activities of regulated entities. CySEC has acquired a specialised system for monitoring supervised entities' online marketing activities/materials. This tool will enhance CySEC's ability to collect, analyse and monitor the marketing communications of CIFs. Specifically, the system has the ability to detect all related mentions from any source globally including social media, news sites, forums, blogs, video sites and ad networks, and covers 187 languages. In addition, it has the ability to carry out real time monitoring with an instant alert trigger on any related keyword combination.
- **Expanding CySEC's supervisory team** to increase the level and frequency of supervision. A total of 32 new staff members have joined CySEC since October 2021, of whom 15 have supervisory duties.
- **Adoption of Big Data management systems** . CySEC is responding to the need to manage Big Data with RegTech systems that use Artificial Intelligence and Cloud Computing. These solutions will enable CySEC to quickly screen data from a large and varied volume of trading activity in order to automatically detect risks and irregularities at an earlier stage and, thus take proactive action against them. This includes:
  - **Facilitation of Transaction Supervision through Digitalization.** CySEC is implementing a transaction data processing, storage and reporting system that is able to generate business insights and can be used for the supervision of market entities. This system will connect to the ESMA hub and download and import associated data, allowing CySEC to store data securely. It will generate standardized reports on a schedule based on the aggregated data, and support ad-hoc queries and reports on both the aggregations and base data. The project will be implemented by June 2022.
  - **Data-driven supervision.** CySEC is developing procedures and methodologies, which, with the appropriate technological infrastructure, will enhance its capacity to ensure regulated entities' compliance with regulations such as EMIR, MIFIR

and SFTR, by automatically detecting potential risks and irregularities at an early stage.

- **Data Governance Framework (DGF).** CySEC is designing a Data Governance Framework (DGF) that will provide a comprehensive approach to managing CySEC data, The DGF will address activities under three main pillars; (a) people, roles and responsibilities, (b) policies and procedures and (c) technology, tools and infrastructure. CySEC aims to automate many of its internal processes by utilising the right technology and skillsets, along with robust procedures that govern every stage of the data life cycle. This will help simplify procedures and ensure issues can be proactively addressed with visualisation/dashboards and alert systems, with the ultimate aim of achieving greater efficiency when managing CySEC resources. The implementation of the action plan will start in 2022.
- **Enterprise Risk Management Framework ('ERM-F').** Currently in progress, the ERM-F supports effective risk management as a continuous and evolving procedure and enables CySEC to approach and assess risks which derive from older, current and future activities. Also, in 2021, the Risk-Based Supervision Framework (RBS-F) was upgraded so that it is continuously updated to take into consideration any new developments or changes that could pose a risk to the market.

## New legislation

The ongoing modernisation of the regulatory framework of the securities market remains very high on CySEC's list of priorities, said Dr Theocharides. New legislative developments are expected to take place in 2022.

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## Notes to Editors:

- CySEC supervises a number of CIFs that provide investment services in complex financial instruments, particularly Contracts for Difference (CFDs). Although the firms provide their services in the Republic of Cyprus, they also operate in EU Member States or third countries, either on a cross-border basis or through the establishment of a branch.
- ESMA's Intervention Measures on the retail CFD sector and other major legislative changes that CySEC has undertaken since 2015 have brought about fundamental reform to the standards under which CIFs conduct business. CSE's aim is for a stronger, safer, more responsible market both in Cyprus and across Europe. These include: banning bonus promotions and trading incentives; reducing default leverage limits; banning outsourced call centres, tackling aggressive marketing practices; introducing Negative Balance Protection to incentivise firms to lower leverage and set higher automatic margin close-out limits; and, introducing a standardised means of trading shorter-term financial products that eradicate the persistent causes of investor detriment. "Pursuant to article 37(4) of the CySEC Law<sup>[1]</sup>, CySEC has the power, upon request by the person/entity concerned, to reach a settlement for any violation or possible violation, act or omission for which there is reasonable suspicion that the said person/entity has committed in violation of the provisions of the Laws for which CySEC is the designated competent authority."
- The enhanced data-driven supervisory approach set out above complements existing supervision, allowing CySEC to meet its responsibilities that include, but are not limited to, ensuring financial stability, market integrity and investor protection. Existing tools include:
  - **A risk-based supervision approach (RBSF).** CySEC uses a comprehensive Risk-Based Supervisory Framework (RBSF) tool designed to assess the risk and compliance requirements for each firm under its supervision. This allows CySEC to categorise supervised entities according to their inherent risk profile, including the potential impact they have on the market and investors. On the basis of RBSF results, a supervisory action plan is prepared annually, specifying the inspections/reviews to be performed, given that the frequency and depth of monitoring depends on the regulated entity's risk classification. Specifically, the risks faced by each regulated entity and their potential impact are taken into consideration so as to focus supervision on entities that have the greatest risks/highest impact.
  - In 2022, in line with its annual Supervisory Action Plan, CySEC will continue to conduct in-depth on-site inspections and desk-top reviews on supervised entities, either by carrying out full audit inspections or on a thematic/targeted basis. In addition, CySEC will provide further guidance where necessary, to ensure the supervised entities' compliance with the regulatory framework.
- **Continuous professional training.** CySEC places great emphasis on the continuous professional education and training of its staff, which is paramount to maintaining the high

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<sup>[1]</sup> <https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=bd9fa312-9a4c-46cb-aaef-edc357280a92>

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standard of services expected from industry professionals. Since 2015, CySEC has ensured key-position employees are certified and continuously educated on regulatory issues. This has increased the level of professionalism in the sector and contributed to increased market confidence and market efficiency. In 2020, these requirements were extended to cover AML Compliance Officers, and in 2022, new exams will be held for staff that have direct contact with the retail clients of regulated entities.

- **A website has been created for investors with easy guides on how to avoid scams**, as part of CySEC's mandate to protect and educate investors on the provision of investment services in complex financial instruments, particularly in Contracts for Difference (CFDs). Although CFDs can appear similar to more traditional investments, such as shares, in reality they are very different and far more complex. As such, CySEC believes they are only suitable for professional clients or highly experienced retail investors who can understand how they work and the risks they entail. Investors are advised not to trade if they do not understand what is on offer.