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**CHECKLIST FOR THE**

**INTERNAL PROCEDURES MANUAL**

**ΤHAT ACCOMPANIES**

**THE APPLICATION OF**

«……………………………………………………»

**FOR THE GRANTING OF A**

**CIF AUTHORISATION**

**Checklist for the internal procedures manual that accompanies the application of «…………..………» for the granting of a Cyprus Investment Firm (CIF) authorisation**

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|  | **ORGANISATIONAL REQUIREMENTS** | **Articles in Law (L)[[1]](#footnote-1)/ Delegated Regulation (DR)[[2]](#footnote-2)/Directive DI87-01 (D)[[3]](#footnote-3)** | **Int. Op. Manual**  **Page No.** |
| --- | --- | --- | --- |
| PART Ι | ORGANISATION |  |  |
| **1.** | General organisational requirements | **L 17 (2)-(10)**  **DR 21** |  |
|  | Describe the measures adopted to comply with the following organisational requirements: |  |  |
| **1.1.1** | establish, implement and maintain decision-making procedures and an organisational structure which clearly and in documented manner specifies reporting lines and allocates functions and responsibilities; | DR 21(1)(a) |  |
| **1.1.2** | ensure that the relevant persons are aware of the procedures which must be followed for the proper discharge of their responsibilities; | DR 21(1)(b) |  |
| **1.1.3** | establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the applicant[[4]](#footnote-4); | DR 21(1)(c) |  |
| **1.1.4** | employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them; | DR 21(1)(d) |  |
| **1.1.5** | establish, implement and maintain effective internal reporting and communication of information at all relevant levels of the applicant; | DR 21(1)(e) |  |
| **1.1.6** | maintain adequate and orderly records of their business and internal organisation; | DR 21(1)(f) |  |
| **1.1.7** | ensure that the performance of multiple functions by their relevant persons does not and is not likely to prevent those persons from discharging any particular function soundly, honestly, and professionally. | DR 21(1)(g) |  |
| **1.2** | Describe the measures adopted in order to implement and maintain systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question. | DR 21(2) |  |
| **1.3** | Describe the business continuity policy aimed at ensuring, in the case of an interruption to systems and procedures of the applicant, the preservation of essential data and functions, and the maintenance of investment services and activities, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of the investment services and activities of the applicant.  In the case that the servers are not located onsite (i.e. Cyprus) the business continuity policy should set out the measures that are in place in order for the applicant and/or CySEC to retain continuous and uninterrupted access to the server and to the systems of the applicant. | DR 21(3) |  |
| **1.4** | Describe the accounting policies and procedures put in place so that, at the request of the competent authority, the applicant shall deliver in a timely manner financial reports which reflect a true and fair view of their financial position and which comply with all applicable accounting standards and rules. | DR 21(4) |  |
| **1.5** | Describe the measures adopted for the monitoring and evaluation of the adequacy and effectiveness of the systems, internal control mechanisms and arrangements established in accordance with paragraphs 1 to 4 of Article 21 of the Delegated Regulation, and take appropriate measures to address any deficiencies. | DR 21(5) |  |
| **1.6** | Describe the measures adopted so that the applicant exercises effective control and safeguard arrangements for information processing systems. | L 17 (5) (b) |  |
| **1.7** | Describe the security mechanisms in place to guarantee the security and authentication of the means of transfer of information, minimise the risk of data corruption and unauthorised access and to prevent information leakage, in order to maintain the confidentiality of the data at all times. | L 17 (5) (c) |  |
| **1.8** | \*NEW\* Establish, implement and maintain additional controls in the organizational structure, with a specific focus on whether this is adequate to carry out  and monitor the cross border activities of the applicant. Specifically set out the functional and legal reporting lines relating to the cross border activities of the investment firm. |  |  |
| **1.9** | \*NEW\* Clarify whether the firm will be outsourcing any activities in host Member States and the controls put in place to mitigate the additional risks to which the firm may be exposed due to its cross border activity. |  |  |
| **2.** | Compliance | **L 17 (2)-(10)**  **DR 22** |  |
|  | Describe the policies and procedures designed to detect any risk of failure by the applicant to comply with its obligations under the Law, as well as the associated risks, and the measures and procedures designed to minimise such risk and to enable the competent authorities to exercise their powers effectively under the Law.  Applicants shall take into account the nature, scale and complexity of its business and the nature and range of investment services and activities undertaken in the course of that business. | DR 22 (1) |  |
|  | Describe the operation of the Compliance Function with specific reference to the following responsibilities: | DR 22 (2) |  |
| **2.2.1** | to monitor on a permanent basis and to assess, on a regular basis, the adequacy and effectiveness of the measures, policies and procedures put in place in accordance with the first subparagraph of paragraph 1 of Article 22 of the Delegated Regulation, and the actions taken to address any deficiencies in the applicant's compliance with its obligations; | DR 22 (2) (a)[[5]](#footnote-5) |  |
| **2.2.2** | to advise and assist the relevant persons responsible for carrying out investment services and activities to comply with the applicant's obligations under the Law; | DR 22 (2) (b)[[6]](#footnote-6) |  |
| **2.2.3** | to report to the management body, on at least an annual basis, on the implementation and effectiveness of the overall control environment for investment services and activities, on the risks that have been identified and on the complaints-handling reporting as well as remedies undertaken or to be undertaken; | DR 22 (2) (c) |  |
| **2.2.4** | to monitor the operations of the complaints-handling process and consider complaints as a source of relevant information in the context of its general monitoring responsibilities. | DR 22 (2) (d) |  |
| **2.2.5** | \*NEW\* Describe the advertising campaign in host Member States, including the languages of the offering, the network used for marketing the firm’s products and the monitoring of the compliance function in relation to the specific area. |  |  |
| **2.3** | Describe the measures adopted to enable the compliance function to discharge its responsibilities properly and independently, and to ensure that the following conditions are satisfied: | DR 22 (3) |  |
| **2.3.1** | the compliance function has the necessary authority, resources, expertise and access to all relevant information; | DR 22 (3) (a) |  |
| **2.3.2** | a compliance officer is appointed and replaced by the management body and is responsible for the compliance function and for any reporting as to compliance required by the Law and Article 25(2) of the Delegated Regulation; the compliance function reports on an ad-hoc basis directly to the management body where it detects a significant risk of failure by the applicant to comply with its obligations under the Law; | DR 22 (3) (b) |  |
| **2.3.3** | the relevant persons involved in the compliance function are not involved in the performance of services or activities they monitor; | DR 22 (3) (c) |  |
| **2.3.4** | the relevant persons involved in the compliance function are not involved in the performance of services or activities they monitor; | DR 22 (3) (d) |  |
| **2.3.5** | the method of determining the remuneration of the relevant persons involved in the compliance function does not compromise their objectivity and is not likely to do so. | DR 22 (3) (e) |  |
| **2.4** | In case the applicant shall not be required to comply with point (d) or point (e) of paragraph 3 of Article 22 of the Delegated Regulation, it has to demonstrate that the relevant requirements are not proportionate and describe how the compliance function continues to be effective. Reference should also be made to the assessment of the effectiveness of the compliance function by the applicant as well as its regular review. | DR 22 (4) |  |
| **3.** | Risk management | **DR 23** |  |
| **3.1** | Describe the risk management policies and procedures which identify the risks relating to the applicant’s activities, processes and systems, and where appropriate, set the level of risk tolerated by the applicant. | DR 23 (1) (a) |  |
| **3.2** | Describe the arrangements, processes and mechanisms to manage the risks relating to the applicant's activities, processes and systems, in light of that level of risk tolerance. | DR 23 (1) (b) |  |
| **3.3** | Describe the procedures to monitor the following: | DR 23 (1) (c) |  |
| **3.3.1** | the adequacy and effectiveness of the applicant's risk management policies and procedures; | DR 23 (1) (c) (i) |  |
| **3.3.2** | the level of compliance by the applicant and its relevant persons with the arrangements, processes and mechanisms adopted in accordance with Article 23 (1) (b) of the Delegated Regulation. | DR 23 (1) (c) (ii) |  |
| **3.3.3** | the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons to comply with such arrangements, processes and mechanisms or follow such policies and procedures. | DR 23 (1) (c) (iii) |  |
| **3.4** | State whether a risk management function that carries out the tasks set out in Article 23 of the Delegated Regulation will be established and if not explain why, taking into account the nature, scale and complexity of the applicant’s business and the nature and range of the investment services and activities undertaken in the course of that business. | DR 23 (2) |  |
| **3.5** | \*NEW\* Describe the risk management policies, to ensure that they adequately address the risks attached to cross border activities, including more focused checks on the internal control procedures established by the applicants and the description of the resources allocated to the various planned activities. |  |  |
| **4.** | Internal audit | **DR 24** |  |
| **4.1** | State whether the applicant will establish an internal audit function, to be separate and independent from the other functions and activities of the applicant and have the responsibilities set out in Article 24 of the Delegated Regulation. If not, explain why in view of the nature, scale and complexity of the applicant’s business and the nature and range of investment services and activities undertaken in the course of that business.  In either case describe the policies and procedures adopted to comply with the requirements of Article 24 of the Delegated Regulation. | DR 24 |  |
| **4.2** | \*NEW\* Describe the arrangements put in place to ensure that the internal control functions have the capacity to control the cross border activities (including those provided in a language other than English of the official language (s) of the home Member State). |  |  |
| **5.** | Responsibility of senior management | **DR 25** |  |
| **5.1** | Describe the allocation of significant functions among senior managers clearly establishing who is responsible for overseeing and maintaining the applicant's organisational requirements and that the senior management is responsible for ensuring that the applicant complies with its obligations under the Law. Set out the duties of the senior management, including the duties to assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law and to take appropriate measures to address any deficiencies. | DR 25 (1) |  |
| **5.2** | State the internal procedures adopted to ensure that the applicant’s senior management shall receive on a frequent basis, and at least annually, written reports on the matters covered by Articles 22, 23 and 24 of the Delegated Regulation indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies. | DR 25 (2) |  |
| **5.3** | \*NEW\* Describe how senior management will supervise the cross border activities of the applicant. |  |  |
| **6.** | Complaints handling | **DR 26** |  |
| **6.1** | Describe the complaints management policies and procedures for the prompt handling of clients' or potential clients' complaints, taking into account the requirements set out in Article 26 of the Delegated Regulation (including references to record keeping). | DR 26 (1) |  |
| **6.2** | Describe the complaints management function responsible for the investigation of complaints and clarify whether this function will be carried out by the compliance function. | DR 26 (3) |  |
| **6.3** | \*NEW\* Describe the procedures put in place for cross border clients to submit and for the firm to deal with complaints resulting from the cross border activities of the investment firm. What are the languages in which cross border clients can submit their complaints? Does the applicant firm have the language capacity to deal with complaints in languages of the host Member States? |  |  |
| **7.** | Remuneration policies and practices | **DR 27** |  |
| **7.1** | Describe the remuneration policies and practices adopted by the Applicant and explain how these ensure its compliance with Article 27 of the Delegated Regulation. | DR 27 (1) |  |
| **8.** | Personal transactions | **DR 29** |  |
| **8.1** | Describe the arrangements aimed at preventing the activities set out in paragraphs 2, 3 and 4 of Article 29 of the Delegated Regulation in the case of any relevant person who is involved in activities that may give rise to a conflict of interest, or who has access to inside information within the meaning of Article 7(1) of Regulation (EU) No 596/2014[[7]](#footnote-7) or to other confidential information relating to clients or transactions with or for clients by virtue of an activity carried out by him on behalf of the applicant. | DR 29 (1) |  |
| **8.2** | These arrangements required under paragraph 1 of Article 29 of the Delegated Regulation shall be designed to ensure that: | DR 29 (5) |  |
| **8.2.1** | each relevant person covered by paragraphs 1, 2, 3 and 4 of Article 29 of the Delegated Regulation is aware of the restrictions on personal transactions, and of the measures established by the applicant in connection with personal transactions and disclosure, in accordance with paragraphs 1, 2, 3 and 4 of Article 29 of the Delegated Regulation. | DR 29 (5) (a) |  |
| **8.2.2** | the applicant is informed promptly of any personal transaction entered into by a relevant person, either by notification of that transaction or by other procedures enabling the applicant to identify such transactions; | DR 29 (5) (b) |  |
| **8.2.3** | a record is kept of the personal transaction notified to the applicant or identified by it, including any authorisation or prohibition in connection with such a transaction. | DR 29 (5) (c) |  |
| **8.2.4** | In the case of outsourcing arrangements, describe the mechanisms adopted to ensure that the firm to which the activity is outsourced maintains a record of personal transactions entered into by any relevant person and provides that information to the applicant promptly on request. | DR 29 (5) |  |
| PART II | OUTSOURCING |  |  |
| **9.** | Outsourcing critical or important operational functions | **DR 31** |  |
| **9.1** | \*NEW\* In the case of outsourcing (including outsourcing activities in host Member States), describe the procedures and measures adopted by the applicant to ensure that the following conditions are satisfied when entering into, managing or terminating any arrangement for the outsourcing to a service provider of critical or important operational functions: | DR 31 (2) |  |
| **9.1.1** | the service provider has the ability, capacity, sufficient resources, appropriate organisational structure supporting the performance of the outsourced functions, and any authorisation required by law to perform the outsourced functions, reliably and professionally; | DR 31 (2) (a) |  |
| **9.1.2** | the service provider carries out the outsourced services effectively and in compliance with applicable law and regulatory requirements, and to this end the applicant has established methods and procedures for assessing the standard of performance of the service provider and for reviewing on an ongoing basis the services provided by the service provider; | DR 31 (2) (b) |  |
| **9.1.3** | the service provider properly supervises the carrying out of the outsourced functions, and adequately manage the risks associated with the outsourcing; | DR 31 (2) (c) |  |
| **9.1.4** | appropriate action is taken where it appears that the service provider may not be carrying out the functions effectively or in compliance with applicable laws and regulatory requirements; | DR 31 (2) (d) |  |
| **9.1.5** | the applicant effectively supervises the outsourced functions or services and manage the risks associated with the outsourcing and to this end the applicant retains the necessary expertise and resources to supervise the outsourced functions effectively and manage those risks; | DR 31 (2) (e) |  |
| **9.1.6** | the service provider has disclosed to the applicant any development that may have a material impact on its ability to carry out the outsourced functions effectively and in compliance with applicable laws and regulatory requirements; | DR 31 (2) (f) |  |
| **9.1.7** | the applicant is able to terminate the arrangement for outsourcing where necessary, with immediate effect when this is in the interests of its clients, without detriment to the continuity and quality of its provision of services to clients; | DR 31 (2) (g) |  |
| **9.1.8** | the service provider cooperates with the competent authorities of the applicant in connection with the outsourced functions; | DR 31 (2) (h) |  |
| **9.1.9** | the applicant, its auditors and the relevant competent authorities have effective access to data related to the outsourced functions, as well as to the relevant business premises of the service provider, where necessary for the purpose of effective oversight in accordance with this article, and the competent authorities are able to exercise those rights of access; | DR 31 (2) (i) |  |
| **9.1.10** | the service provider protects any confidential information relating to the applicant and its clients; | DR 31 (2) (j) |  |
| **9.1.11** | the applicant and the service provider have established, implemented and maintained a contingency plan for disaster recovery and periodic testing of backup facilities, where that is necessary having regard to the function, service or activity that has been outsourced; | DR 31 (2) (k) |  |
| **9.1.12** | the applicant has ensured that the continuity and quality of the outsourced functions or services are maintained also in the event of termination of the outsourcing either by transferring the outsourced functions or services to another third party or by performing them itself. | DR 31 (2) (l) |  |
| PART III | CONFLICTS OF INTEREST POLICY |  |  |
| **10.** | Conflicts of interest policy | **DR 34** |  |
| **10.1** | Describe the conflicts of interest policy that is appropriate to the size and organisation of the applicant and the nature, scale and complexity of its business. Where the applicant is a member of a group, the policy shall also take into account any circumstances, of which the applicant is or should be aware, which may give rise to a conflict of interest arising as a result of the structure and business activities of other members of the group.  If applicable please set out the leverage policy of the applicant and the measures adopted by the applicant in order to prevent the potential conflict of interests arising between the commercial interests of the applicant offering leveraged products and the interests of a retail client. | DR 34 (1) |  |
| **10.2** | The conflicts of interest policy shall include the following: | DR 34 (2) |  |
| **10.2.1** | identify, with reference to the specific investment services and activities and ancillary services carried out by or on behalf of the applicant, the circumstances which constitute or may give rise to a conflict of interest entailing a risk of damage to the interests of one or more clients; | DR 34 (2) (a) |  |
| **10.2.2** | specify procedures to be followed and measures to be adopted in order to prevent or manage such conflicts. | DR 34 (2) (b) |  |
| **10.3** | The procedures and measures referred to in paragraph 34 (2) (b) of the Delegated Regulation shall be designed to ensure that relevant persons engaged in different business activities involving a conflict of interest of the kind specified in paragraph (34) (2) (a) of the Delegated Regulation carry on those activities at a level of independence appropriate to the size and activities of the applicant and of the group to which it belongs, and to the risk of damage to the interests of clients.  For the purposes of paragraph 34 (2) (b) of the Delegated Regulation, the procedures to be followed and measures to be adopted shall include at least those items in the following list that are necessary for the applicant to ensure the requisite degree of independence: | DR 34 (3) |  |
| **10.3.1** | effective procedures to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more clients; | DR 34 (3) (a) |  |
| **10.3.2** | the separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of, or providing services to, clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the applicant; | DR 34 (3) (b) |  |
| **10.3.3** | the removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities; | DR 34 (3) (c) |  |
| **10.3.4** | measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services or activities; | DR 34 (3) (d) |  |
| **10.3.5** | measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest. | DR 34 (3) (e) |  |
| **10.4** | Describe the actions in relation to the assessment and review of the conflicts of interest policy and all appropriate measures to address any deficiencies.  *‘Over-reliance on disclosure of conflicts of interest shall be considered a deficiency in the applicant's conflicts of interest policy’.* | DR 34 (5) |  |
| **11.** | Retention of records | **L 17 (6)**  **DR 72** |  |
| **11.1** | Describe the arrangements for record keeping of all services and activities provided, and transactions undertaken by it, which shall be sufficient to enable the Commission to exercise its supervisory functions and to take steps to ensure the applicant’s compliance with its obligations under this Law, the Regulation (EU) No 600/2014 on markets in financial instrument (MiFIR), the Directive 2014/57/EU on criminal sanctions for market abuse  and the Regulation (EU) No 596/2014 on market abuse, and in particular to ensure that the applicant has complied with all obligations, including those with respect to clients or potential clients and to the integrity of the market. | L 17 (6) |  |
| **11.2** | The records shall be retained in a medium that allows the storage of information in a way accessible for future reference by the competent authority, and in such a form and manner that the following conditions are met: (a) the competent authority is able to access them readily and to reconstitute each key stage of the processing of each transaction; (b) it is possible for any corrections or other amendments, and the contents of the records prior to such corrections or amendments, to be easily ascertained; (c) it is not possible for the records otherwise to be manipulated or altered; (d) it allows IT or any other efficient exploitation when the analysis of the data cannot be easily carried out due to the volume and the nature of the data; and (e) the firm's arrangements comply with the record keeping requirements irrespective of the technology used. | DR 72 (1) |  |
| **11.3** | Describe the record keeping arrangements in relation tothe records identified in Annex I to the Delegated Regulation depending upon the nature of the applicant’s activities. The list of records identified in Annex I to the Delegated Regulation is without prejudice to any other record-keeping obligations arising from other legislation. | DR 72 (2) |  |
| **11.4** | Describe the arrangements for record keeping of any policies and procedures the applicant is required to maintain pursuant to the Law, the Regulation (EU) No 600/2014 on markets in financial instrument (MiFIR), the Directive 2014/57/EU on criminal sanctions for market abuse and the Regulation (EU) No 596/2014 on market abuse and the respective implementing measures. | DR 72 (3) |  |
| **11.5** | Describe the policy in relation to the recording of telephone conversations and electronic communications to ensure the compliance of the Applicant with Article 76 of the Delegated Regulation. | L16(7)  DR 76 |  |
| **12.** | Record of services or activities giving rise to detrimental conflict of interest | **DR 35** |  |
| **12.1** | Describe the arrangements for record keeping of the kinds of investment or ancillary service or investment activity carried out by or on behalf of the applicant in which a conflict of interest entailing a risk of damage to the interests of one or more clients has arisen or, in the case of an ongoing service or activity, may arise. Reference should also be made to the submission of such reports to the senior management. | DR 35 |  |
| **13.** | Product Governance | **L. 17 (3)** |  |
| **13.1** | If the applicant will manufacture financial instruments for sale to clients must describe the process for the approval of each financial instrument and the significant adaptations brought about to existing financial instruments before it is marketed or distributed to clients.  The product approval process must specify an identified target market of end clients within the relevant category of clients for each financial instrument and must describe all measures taken to ensure that all relevant risks to such identified target market are assessed and that the intended distribution strategy is consistent with the identified target market | L. 17 (3) (b)  L. 17 (3) (c) |  |
| **13.2** | Describe the procedures and measures to ensure the manufacturing of financial instruments complies with the requirements on proper management of conflicts of interest, including remuneration. In particular, investment firms manufacturing financial instruments shall ensure that the design of the financial instrument, including its features, does not adversely affect end clients or does not lead to problems with market integrity by enabling the firm to mitigate and/or dispose of its own risks or exposure to the underlying assets of the product, where the investment firm already holds the underlying assets on own account. | D 11 (2) |  |
| **13.3** | Set out the analysis of potential conflicts of interests each time a financial instrument is manufactured. | D 11 (3) |  |
| **13.4** | Describe the arrangements to ensure that the management body has effective control over the applicant’s product governance process and that the compliance reports to the management body systematically include information about the financial instruments manufactured by the firm, including information on the distribution strategy. | D 11 (6) |  |
| **13.5** | Describe the arrangements to ensure that the compliance function monitors the development and periodic review of product governance arrangements in order to detect any risk of failure by the firm to comply with the obligations set out in this Article 11 of Directive DI87-01. | D 11 (7) |  |
| **13.6** | Describe the arrangements for the review the financial instruments they manufacture on a regular basis, taking into account any event that could materially affect the potential risk to the identified target market. In doing so, it must be taken into account if the financial instrument remains consistent with the needs, characteristics and objectives of the target market and if it is being distributed to the target market, or is reaching clients for whose needs, characteristics and objectives the financial instrument is not compatible. | D 11 (14) |  |
| **13.7** | If the applicant offers or recommends financial instruments which it does not manufacture, describe the arrangements in order to obtain the information referred to in Article 17 (3) (e) of the Law and to understand the characteristics and identified target market of each financial instrument. | L. 17 (3) (f)  D 12 (1) |  |
| **13.8** | Describe the product governance arrangements to ensure that products and services the applicant intends to offer or recommend are compatible with the needs, characteristics, and objectives of an identified target market and that the intended distribution strategy is consistent with the identified target market. Applicants shall appropriately identify and assess the circumstances and needs of the clients they intend to focus on, so as to ensure that clients' interests are not compromised as a result of commercial or funding pressures. | D 12 (2) |  |
| **13.9** | Describe the maintain procedures and measures to ensure compliance with all applicable requirements under the Law, when deciding the range of financial instrument and services that they offer or recommend and the respective target markets. These should include requirements relating to disclosure, assessment of suitability or appropriateness, inducements and proper management of conflicts of interest. In this context, particular care shall be taken when distributors intend to offer or recommend new products or there are variations to the services they provide. | D 12 (3) |  |
| **13.10** | Describe the arrangements for the review and update of the product governance arrangements in order to ensure that they remain robust and fit for their purpose, and take appropriate actions where necessary. | D 12 (4) |  |
| **13.11** | Describe the arrangements for the review of the investment products the applicant offers or recommends and the services the applicant provides on a regular basis, taking into account any event that could materially affect the potential risk to the identified target market. The assessment should at a minimum least whether the product or service remains consistent with the needs, characteristics and objectives of the identified target market and whether the intended distribution strategy remains appropriate. | D 12 (5) |  |
| **13.12** | Describe the arrangements to ensure that the compliance function oversee the development and periodic review of product governance arrangements in order to detect any risk of failure to comply with the obligations set out in Article 12 of Directive DI87-01. | D 12 (6) |  |
| **13.13** | Describe the arrangements to ensure that the applicant’s management body has effective control over the firm's product governance process to determine the range of investment products that they offer or recommend and the services provided to the respective target markets and that the compliance reports to the management body systematically include information about the products they offer or recommend and the services provided. | D 12 (7) |  |
| **14.** | Additional organisational requirements in relation to investment research or marketing communications | **DR 37** |  |
| **14.1** | If the applicant will produce, or arrange for the production of, investment research that is intended or likely to be subsequently disseminated to clients of the applicant or to the public, under its own responsibility or that of a member of its group, describe the arrangement to ensure the implementation of all the measures set out in Article 34(3) of the Delegated Regulation in relation to the financial analysts involved in the production of the investment research and other relevant persons whose responsibilities or business interests may conflict with the interests of the persons to whom the investment research is disseminated. | DR 37 (1) |  |
| **14.2** | Applicants that fall within the scope of Article 37 (1) of the Delegated Regulation describe the arrangements designed to ensure that the following conditions are satisfied: | DR 37 (2) |  |
| **14.2.1** | financial analysts and other relevant persons do not undertake personal transactions or trade, other than as market makers acting in good faith and in the ordinary course of market making or in the execution of an unsolicited client order, on behalf of any other person, including the applicant, in financial instruments to which investment research relates, or in any related financial instruments, with knowledge of the likely timing or content of that investment research which is not publicly available or available to clients and cannot readily be inferred from information that is so available, until the recipients of the investment research have had a reasonable opportunity to act on it; | DR 37 (2) (a) |  |
| **14.2.2** | in circumstances not covered by Article 37 (2) (b) of the Delegated Regulation, financial analysts and any other relevant persons involved in the production of investment research do not undertake personal transactions in financial instruments to which the investment research relates, or in any related financial instruments, contrary to current recommendations, except in exceptional circumstances and with the prior approval of a member of the applicant's legal or compliance function; | DR 37 (2) (b) |  |
| **14.2.3** | a physical separation exists between the financial analysts involved in the production of investment research and other relevant persons whose responsibilities or business interests may conflict with the interests of the persons to whom the investment research is disseminated or, when considered not appropriate to the size and organisation of the applicant as well as the nature, scale and complexity of its business, the establishment and implementation of appropriate alternative information barriers; | DR 37 (2) (c) |  |
| **14.2.4** | the applicants themselves, financial analysts, and other relevant persons involved in the production of the investment research do not accept inducements from those with a material interest in the subject-matter of the investment research; | DR 37 (2) (d) |  |
| **14.2.5** | the applicants themselves, financial analysts, and other relevant persons involved in the production of the investment research do not promise issuers favourable research coverage; | DR 37 (2) (e) |  |
| **14.2.6** | before the dissemination of investment research issuers, relevant persons other than financial analysts, and any other persons are not permitted to review a draft of the investment research for the purpose of verifying the accuracy of factual statements made in that research, or for any purpose other than verifying compliance with the applicant’s legal obligations, where the draft includes a recommendation or a target price | DR 37 (2) (f) |  |
| **15.** | Additional general requirements in relation to underwriting or placing | **DR 38** |  |
| **15.1** | If the applicant will provide advice on corporate finance strategy, as set out in Part II(3), First Appendix of the Law and provide the service of underwriting or placing of financial instruments, describe the arrangements in place to inform the issuer client of the following, before accepting a mandate to manage the offering:, | DR 38 (1) |  |
| **15.1.1** | the various financing alternatives available with the applicant, and an indication of the amount of transaction fees associated with each alternative; | DR 38 (1) (a) |  |
| **15.1.2** | the timing and the process with regard to the corporate finance advice on pricing of the offer; | DR 38 (1) (b) |  |
| **15.1.3** | the timing and the process with regard to the corporate finance advice on placing of the offering; | DR 38 (1) (c) |  |
| **15.1.4** | details of the targeted investors, to whom the applicant intends to offer the financial instruments; | DR 38 (1) (d) |  |
| **15.1.5** | the job titles and departments of the relevant individuals involved in the provision of corporate finance advice on the price and allotment of financial instruments; and | DR 38 (1) (e) |  |
| **15.1.6** | The arrangements to prevent or manage conflicts of interest that may arise where the applicant places the relevant financial instruments with its investment clients or with its own proprietary book. | DR 38 (1) (f) |  |
| **15.2** | Describe the centralised process to identify all underwriting and placing operations of the applicant and record such information, including the date on which the applicant was informed of potential underwriting and placing operations. Describe the measures and procedures to identify all potential conflicts of interest arising from other activities of the applicant, or group, and implement appropriate management procedures. | DR 38 (2) |  |
| **15.3** | If the applicant will provide execution and research services as well as carrying out underwriting and placing activities describe the controls in place to manage any potential conflicts of interest between these activities and between their different clients receiving those services. | DR 38 (3) |  |
| **16.** | Additional requirements in relation to pricing of offerings in relation to issuance of financial instruments | **DR 39** |  |
| **16.1** | Describe the systems, controls and procedures to identify and prevent or manage conflicts of interest that arise in relation to possible under-pricing or over-pricing of an issue or involvement of relevant parties in the process. In particular, applicants shall as a minimum requirement establish, implement and maintain internal arrangements to ensure both of the following: | DR 39 (1) |  |
| **16.1.1** | that the pricing of the offer does not promote the interests of other clients or applicant's own interests, in a way that may conflict with the issuer client's interests; and | DR 39 (1) (a) |  |
| **16.1.2** | the prevention or management of a situation where persons responsible for providing services to the applicant's investment clients are directly involved in decisions about corporate finance advice on pricing to the issuer client. | DR 39 (1) (b) |  |
| **17.** | Additional requirements in relation to placing | **DR 40** |  |
| **17.1** | Applicants placing financial instruments describe the arrangements to prevent recommendations on placing from being inappropriately influenced by any existing or future relationships. | DR 40 (1) |  |
| **17.2** | Describe the effective internal arrangements to prevent or manage conflicts of interests that arise where persons responsible for providing services to the applicant’s investment clients are directly involved in decisions about recommendations to the issuer client on allocation. | DR 40 (2) |  |
| **17.3** | State the allocation policy that sets out the process for developing allocation recommendations. The allocation policy shall be provided to the issuer client before agreeing to undertake any placing services. The policy shall set out relevant information that is available at that stage, about the proposed allocation methodology for the issue. | DR 40 (4) |  |
| **18.** | Additional requirements in relation to advice, distribution and self-placement | **DR 41** |  |
| **18.1** | Describe the systems, controls and procedures to identify and manage the conflicts of interest that arise when providing investment service to an investment client to participate in a new issue, where the applicant receives commissions, fees or any monetary or non-monetary benefits in relation to arranging the issuance. Any commissions, fees or monetary or non-monetary benefits shall comply with the requirements in Article 25(7), 25(8) and 25(9) of the Law and be documented in the applicant's conflicts of interest policies and reflected in the applicant's inducements arrangements. | DR 41 (1) |  |
| **18.2** | Describe the arrangements for the identification, prevention or management of the potential conflicts of interest that arise in relation to this type of activity if the applicants will engage in the placement of financial instruments issued by themselves or by entities within the same group, to their own clients, including their existing depositor clients in the case of credit institutions, or investment funds managed by entities of their group, Such arrangements shall include consideration of refraining from engaging in the activity, where conflicts of interest cannot be appropriately managed so as to prevent any adverse effects on clients. | DR 41 (2) |  |
| **19.** | Additional requirements in relation to lending or provision of credit in the context of underwriting or placement | **DR 42** |  |
| **19.1** | Describe the arrangements to identify and prevent or manage any conflicts of interest that may arise where any previous lending or credit to the issuer client by an applicant, or an entity within the same group, may be repaid with the proceeds of an issue. | DR 42 (1) |  |
| **19.2** | Set out in the applicant’s conflict of interest policy shall the requirement require in relation to the sharing of information about the issuer's financial situation with group entities acting as credit providers, provided this would not breach information barriers set up by the applicant to protect the interests of a client. | DR 42 (3) |  |
| **20.** | Record keeping in relation to underwriting or placing | **DR 43** |  |
| **20.1** | Describe the record keeping arrangements in relation to the content and timing of instructions received from clients. | DR 43 |  |
| PART IV | Reporting of infringements |  |  |
| **21.** | Describe the procedures for the applicant’s employees to report potential or actual infringements internally through a specific, independent and autonomous channel. | L 74 (2) |  |
| PART V | SAFEKEEPING OF CLIENT ASSETS |  |  |
| **22.** | Safeguarding of clients assets |  |  |
| **22.1** | In case the applicant holds financial instruments belonging to clients, describe the arrangements established in order to safeguard the ownership rights of clients, especially in the event of the applicant’s insolvency, and to prevent the use of a client’s financial instruments on own account except with the client’s express consent. | L 17 (8) |  |
| **22.2** | In case the applicant holds clients’ funds, describe the arrangements, established to safeguard the rights of clients and, to prevent the use of client funds for its own account. | L 17 (9) |  |
| **22.3** | Describe the arrangements of the applicant to comply with the following requirements: | D 4 (1) |  |
| **22.3.1** | keep records and accounts enabling them at any time and without delay to distinguish assets held for one client from assets held for any other client and from their own assets; | D 4 (1) (a) |  |
| **22.3.2** | maintain records and accounts in a way that ensures their accuracy, and in particular their correspondence to the financial instruments and funds held for clients and that they may be used as an audit trail; | D 4 (1) (b) |  |
| **22.3.3** | conduct, on a regular basis, reconciliations between their internal accounts and records and those of any third parties by whom those assets are held; | D 4 (1) (c) |  |
| **22.3.4** | take the necessary steps to ensure that any client financial instruments deposited with a third party, in accordance with Article 5 of the Directive DI87-01, are identifiable separately from the financial instruments belonging to the investment firm and from financial instruments belonging to that third party, by means of differently titled accounts on the books of the third party or other equivalent measures that achieve the same level of protection; | D 4 (1) (d) |  |
| **22.3.5** | take the necessary steps to ensure that client funds deposited, in accordance with Article 6 of the Directive DI87-01, in a central bank, a credit institution or a bank authorised in a third country or a qualifying money market fund are held in an account or accounts identified separately from any accounts used to hold funds belonging to the investment firm; | D 4 (1) (e) |  |
| **22.3.6** | introduce adequate organisational arrangements to minimise the risk of the loss or diminution of client assets, or of rights in connection with those assets, as a result of misuse of the assets, fraud, poor administration, inadequate record-keeping or negligence. | D 4 (1) (f) |  |
| PART VI | BEST EXECUTION POLICY |  |  |
| **23.** | Obligation to execute orders on terms most favourable to the client | L 28 |  |
| **23.1** | Describe the policies, procedures and measures adopted by the applicant to obtain, when executing orders, the best possible result for its clients taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. | L 28 (1) (a) |  |
| **23.2** | Describe the arrangements established by the applicant to ensure its compliance with subsection (1) of Article 28 of the Law and set out the order execution policy to allow it to obtain, for its client orders, the best possible result in accordance with subsection (1) of Article 28 of the Law. | L 28 (4) |  |
| **23.3** | Ensure that the order execution policy includes, in respect of each class of financial instruments, information on the different venues where the applicant will execute its client orders and the factors affecting the choice of execution venue and must at least include those venues that enable the applicant to obtain on a consistent basis the best possible result for the execution of client orders. | L 28 (5)(a) |  |
| PART VII | ALGORITHMIC TRADING AND DIRECT ELECTRONIC ACCESS |  |  |
| **24.** | Algorithmic trading[[8]](#footnote-8) |  |  |
| **24.1** | If the applicant will engage in algorithmic trading describe the systems and risk controls suitable to the business it operates to ensure that, its trading systems are resilient and have sufficient capacity, are subject to appropriate trading thresholds and trading limits and prevent the sending of erroneous orders or the systems otherwise functioning in a way that may create or contribute to a disorderly market. | L 18 (1) |  |
| **24.2** | Describe the systems and risk controls to ensure the trading systems cannot be used for any purpose that is contrary to Regulation (EU) No 596/2014 on market abuse or to the rules of a trading venue to which it is connected. | L 18 (1) |  |
| **24.3** | Describe the business continuity mechanisms to deal with any failure of its trading systems and to ensure that its systems are fully tested and properly monitored and they meet the requirements laid down in section 18 (1) of the Law. | L 18 (1) |  |
| **24.4** | In case the applicant engages in a high-frequency algorithmic trading techniques, describe the record keeping arrangements established in order to maintain accurate and time sequenced records of all its placed orders, including cancelled orders, executed orders and quotations on trading venues and shall make them available to the Commission upon request. | L 18 (2) (e) |  |
| **24.5** | If the applicant will provide direct electronic access to a trading venue, describe the systems and controls which ensure, a proper assessment and review of the suitability of clients using the service, that clients using the service are prevented from exceeding appropriate pre-set trading and credit thresholds, that trading by clients using the service is properly monitored and that appropriate risk controls prevent trading that may create risks to the applicant itself, or that could create or contribute to a disorderly market or could be contrary to Regulation (EU) No 596/2014 on market abuse or the rules of the trading venue. | L 18 (5) (a) |  |
| **24.6** | Describe the record-keeping arrangements in relation to the matters referred to in section 18 (5) of the Law and the arrangements adopted to ensure that those records will be sufficient to enable the Commission to monitor compliance with the requirements of the Law. | L 18 (5) (f) |  |
| **24.7** | If the applicant will act as a general clearing member for other persons, describe the systems and controls in place to ensure that clearing services are only applied to persons who are suitable and meet clear criteria, and that appropriate requirements are imposed on those persons, to reduce risks to the applicant and to the market. The applicant must ensure that there is a binding written agreement between the CIF and the person, regarding the essential rights and obligations arising from the provision of that service. | L 18 (6) |  |
| PART VIII | TRANSACTION REPORTING |  |  |
| **25.** | In case the applicant will execute transactions in financial instruments, describe the arrangements established to report complete and accurate details of such transactions to the competent authority as quickly as possible, and no later than the close of the following working day. | Article 26 MiFIR[[9]](#footnote-9) |  |
| **25.1** | Describe the methods and arrangements by which transaction reports are generated and submitted by trading venues and investment firms including: | Article 15 DR 2017/590[[10]](#footnote-10) |  |
| **25.1.1** | systems to ensure the security and confidentiality of the data reported; | Article 15 (1) (a) DR 2017/590 |  |
| **25.1.2** | mechanisms for authenticating the source of the transaction report; | Article 15 (1) (b) DR 2017/590 |  |
| **25.1.3** | precautionary measures to enable the timely resumption of reporting in the case of a failure of the reporting system; | Article 15 (1) (c) DR 2017/590 |  |
| **25.1.4** | mechanisms for identifying errors and omissions within transaction reports; | Article 15 (1) (d) DR 2017/590 |  |
| **25.1.5** | mechanisms to avoid the reporting of duplicate transaction reports, including where an investment firm relies on a trading venue to report the details of transactions executed by the investment firm through the systems of the trading venue in accordance with Article 26(7) of Regulation (EU) No 600/2014; | Article 15 (1) (e) DR 2017/590 |  |
| **25.1.6** | mechanisms to ensure that the trading venue only submits reports on behalf of those investment firms that have chosen to rely on the trading venue to send reports on their behalf for transactions completed through systems of the trading venue; | Article 15 (1) (f) DR 2017/590 |  |
| **25.1.7** | mechanisms to avoid reporting of any transaction where there is no obligation to report under Article 26(1) of Regulation (EU) No 600/2014 either because there is no transaction within the meaning of Article 2 of this Regulation or because the instrument which is the subject of the transaction concerned does not fall within the scope of Article 26(2) of Regulation (EU) No 600/2014; | Article 15 (1) (g) DR 2017/590 |  |
| **25.1.8** | mechanisms for identifying unreported transactions for which there is an obligation to report under Article 26 of Regulation (EU) No 600/2014, including cases where transaction reports rejected by the competent authority concerned have not been successfully re-submitted. | Article 15 (1) (h) DR 2017/590 |  |
| **25.2** | Describe the arrangements in place to ensure that the applicant’s transaction reports are complete and accurate. Those arrangements shall include testing of their reporting process and regular reconciliation of their front-office trading records against data samples provided to them by their competent authorities to that effect. | Article 15 (3) DR 2017/590 |  |
| **25.3** | Describe the arrangements in place to ensure that the applicant’s transaction reports, when viewed collectively, reflect all changes in their position and in the position of their clients in the financial instruments concerned at the time transactions in the financial instruments are executed. | Article 15 (5) DR 2017/590 |  |
| **PART IX** | **EMIR REPORTING** |  |  |
| **26.** | In case the applicant will conclude derivative contracts, describe the arrangements established to report complete and accurate details of such contracts to a registered or recognised trade repository, no later than the working day following the conclusion, modification or termination of the contract. | Article 9 EMIR  DR 148/2013 as amended by DR 2017/104  DR1247/2012 as amended by 2017/105 |  |

1. The Investment Services and Activities and Regulated Markets Law of 2017, L. 87(I)/2017, (the “Law”). [↑](#footnote-ref-1)
2. The Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (the “Delegated Regulation”). [↑](#footnote-ref-2)
3. [The Directive DI87-01 for the Safeguarding of Financial Instruments and Funds belonging to Clients](https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=a092e7a3-4357-481e-90d2-b5afa179401d) (the “Directive DI87-01”). [↑](#footnote-ref-3)
4. Where the checklist is submitted in relation to an authorised Cyprus Investment Firm (CIF), the term applicant will be read as CIF. [↑](#footnote-ref-4)
5. Please note that in order to comply with this requirement, the compliance function shall conduct an assessment on the basis of which it shall establish a risk-based monitoring programme that takes into consideration all areas of the investment firm's investment services, activities and any relevant ancillary services, including relevant information gathered in relation to the monitoring of complaints handling. The monitoring programme shall establish priorities determined by the compliance risk assessment ensuring that compliance risk is comprehensively monitored. [↑](#footnote-ref-5)
6. Please note that in order to comply with this requirement, the compliance function shall conduct an assessment on the basis of which it shall establish a risk-based monitoring programme that takes into consideration all areas of the investment firm's investment services, activities and any relevant ancillary services, including relevant information gathered in relation to the monitoring of complaints handling. The monitoring programme shall establish priorities determined by the compliance risk assessment ensuring that compliance risk is comprehensively monitored. [↑](#footnote-ref-6)
7. **Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.** [↑](#footnote-ref-7)
8. In preparing the Internal Procedures Manual, investment firms that will engage in algorithmic trading should also take into account the requirements and arrangements set out in Commission Delegated Regulation (EU) 2017/589 of 19 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the organisational requirements of investment firms engaged in algorithmic trading. This Delegated Regulation elaborates further on the requirements set out in Article 18 of the Law. [↑](#footnote-ref-8)
9. Regulation (EU) No 600/2014 of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012. [↑](#footnote-ref-9)
10. Commission Delegated Regulation (EU) 2017/590 of 28 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the reporting of transactions to competent authorities. [↑](#footnote-ref-10)