

**UNOFFICIAL INTEGRATION OF LAW 214(I)/2002 OF 17 DECEMBER 2002,
6(I)/2003 OF 17 JANUARY 2003, 86(I)/2003 OF 18 JULY 2003,
194(I)/2003 OF 31 DECEMBER 2003, 195(I)/2003 OF 31 DECEMBER
2003, 145(I)/2004 OF 30 APRIL 2004, 238(I)/2004 OF 5 NOVEMBER 2004
AND 98(I)/2005 OF 29 JULY 2005.**

Act No.148 (I) of 2002

AN ACT TO MAKE PROVISION ABOUT INVESTMENT SERVICES,
INVESTMENT FIRMS (IFs), INVESTMENT FIRMS' OWN FUND CAPITAL
ADEQUACY, THE CREATION OF AN INVESTOR COMPENSATION FUND;
AND OTHER CONNECTED PURPOSES

Law 148(I)/2002
Law 214(I)/2002
Law 6(I)/2003
Law 86(I)/2003
Law 194(I)/2003
Law 195(I)/2003
Law 145(I)/2004
Law 238(I)/2004
Law 98(I)/2005

The House of Representatives has adopted this Act

**Article 1
Short Title**

1. This Act may be cited as the Investment Firms (IF) Act 2002- 2004.

**PART I
DEFINITIONS AND SCOPE OF APPLICATION**

**Article 2
Definitions**

In this Act, except where it follows otherwise from the context:

“recognized Third country investment firm” shall mean an undertaking with its registered office situated in a Third country where it has been granted an authorization for the provision of investment services falling within the definition thereof hereunder and which is subject to prudential supervision rules which the competent Supervisory Authority deems equivalent to those drawn up hereunder, from the point of view of the protection of the general interest and the promotion of the regular operation of the capital market which they afford;

“underwriting” shall include the sale or firm-commitment underwriting in respect of the whole or part of the issue of financial instruments, as well as the provision of brokerage services in between issuer or financial instruments provider and investors with regard to the above. The term “underwriter” is construed accordingly;

The present English text is for information purposes only and is not legally binding. The legally binding document is in the Greek language.

“Insurance undertaking” shall mean an insurance undertaking within the meaning of section 2 of the Insurance Services and Other Related Issues Law of 2002 - 2004;

“qualifying holding” shall mean any direct or indirect holding in an Investment Firm which represents 10 % or more of the share capital or of the voting rights within an investment firm or which makes it possible to exercise a significant influence over the management of the firm in which that holding subsists;

“control” shall mean the control exercised by one company over another, within the meaning of Article 148 of the Companies Act;

“approved auditor” shall mean the person possessed of the requisite qualifications, within the meaning of article 155 of the Companies Act, to be appointed auditor of a company other than an excluded private company;

“indirect participation” shall mean participation as defined in Annex Two;

“investment service” shall mean any of the services designated in Part I of Annex One relating to any of the financial instruments listed in Part II of the said Annex;

“Investment Firm operating under the free provision of services regime” shall mean an investment firm providing cross-border financial services within the Republic without having a branch therein and which has been granted authorization by the competent authority of the European Union member state where its registered office is situated;

“Cyprus Securities and Exchange Commission” shall mean the public law legal entity established and operating pursuant to the Cyprus Cyprus Securities and Exchange Commission (Constitution and Terms of Reference) Act 2001;

“investment firm”, hereinafter cited as ISF, shall mean any natural person or legal entity the regular occupation or business of which is the provision of one or more of the designated investment services for third parties on a professional basis and shall include credit institutions which provide investment services pursuant to this Act;

“IF business plan” shall mean the business plan defined in indent (a), section (5) of Article 10;

“competent Supervisory Authorities”, in respect of an ISF which is not a credit institution, shall mean the Cyprus Securities and Exchange Commission and, where the ISF is a credit institution, the Central Bank;

“brokerage firms for investments in transferable securities”, hereinafter cited as BFITS, shall mean the undertaking referred to in Part XII;

“European Commission” shall mean the Commission of the European Communities;

“institution” shall mean the credit institutions established within the Republic and CISFs;

“Central Bank” shall mean the Central Bank of the Republic of Cyprus;

“transferable securities” shall mean shares in companies and other securities equivalent to shares in companies, bonds and other forms of securitized debt which are negotiable on the capital market and any other securities normally dealt in giving the right to acquire any such transferable securities by subscription or exchange or giving rise to a cash settlement, excluding instruments of payment;

“member-state” shall mean a European Union member state;

“home member-state” shall bear the meaning attributed thereto by Annex Three;

“host member-state” shall mean the member state in which an ISF has a branch or provides cross-border services from;

“Cypriot investment firm”, hereinafter cited as CISF, shall mean the investment services firm established and operating within the Republic, excluding credit institutions;

“Member of the Cypriot Stock Exchange” shall bear the meaning attributed thereto by Article 31 of the Securities and Cyprus Stock Exchange Acts of 1993 to (No.3) 2000;

“shares outstanding” shall bear the meaning attributed thereto by Article 2 of the Open end Collective Investment Undertakings and Related Matters Act 2001;

“parent undertaking” and “subsidiary undertaking” shall mean a parent and a subsidiary undertaking as defined in Article 148 of the Companies Act;

“legal entity” shall include a firm or any group of persons whether established in the Republic or abroad;

“Resolutions” shall mean the regulatory Resolutions of the Cyprus Securities and Exchange Commission or the Central Bank operating in their respective supervisory capacities, issued in exercise of the powers conferred hereunder and published in the Official Gazette of the Republic, the terms “Cyprus Securities and Exchange Commission Resolutions” and “Central Bank Resolutions” being construed accordingly;

“group” shall mean a group of undertakings, which consists of a parent undertaking, its subsidiaries and the entities in which the parent undertaking or its subsidiaries hold a participation, as well as undertakings which, although not connected between them through a relationship within the meaning of section 148 of the Companies Law, have been placed along with the parent undertaking under single management following an agreement or according to the provisions of their articles of association or their management bodies are made up in their majority during a financial year and until the drawing up of the consolidated accounts of the same persons;

“regulated market” shall mean a market for the financial instruments listed in Part II of Annex One which functions regularly and is subject to rules in respect of its operation and the conditions for access to the market, the conditions governing admission to listing and trade of financial instruments in that market, the reporting and transparency rules in respect of the transactions taking place therein, which is subject to supervision and which appears on the list drawn up in accordance with Article 31 of this Act;

“non-core services” shall mean the services listed in Part III of Annex One;

“close relations” shall bear the meaning attributed thereto in Annex Four;

“related persons” shall bear the meaning attributed thereto in Annex Five;

“Investor Compensation Fund”, hereinafter cited as ICF, shall mean the ICF for clients of credit institutions and the ICF for clients of IFs provided for under Part XI;

“money-market instruments” shall mean those classes of instruments, which are normally dealt in on the money market;

“credit institution” shall bear the meaning attributed thereto by art.2 of the Banking Business Acts of 1997 and 2000 and shall include credit institutions operating pursuant to the respective member-state’s laws or credit institutions operating pursuant to the laws of the any third country whose supervisory regime is deemed by the Central Bank to be equivalent to that provided for under the banking legislation;

“banking legislation” shall mean the Banking Business Acts of 1997 and 2000 and whichever subsequent statute amends or supersedes them, including any Regulations or Resolutions issued in exercise of the powers conferred thereunder;

“third country” shall mean any non European Union state;

“IF branch” shall mean a business unit devoid of legal personality which is part of an investment firm and which provides investment services which the investment firm has been authorized to provide whilst all places of business set up in the same member state by an investment firm with headquarters in another member state shall be regarded as a single branch;

“Minister” shall mean the Minister of Finance of the Republic from time to time;

“trading-book” shall mean the trading book designated pursuant to competent Supervisory Authority Resolutions;

“securities regulation” shall mean the Securities and Cyprus Stock Exchange Acts of 1993 to (No.3) 2002 and whichever subsequent statute amends or supersedes them,

including any Regulations or Resolutions issued in exercise of the powers conferred thereunder;

“Cyprus Stock Exchange”, hereinafter cited as CSE, shall mean the Stock Exchange established pursuant to Article 3 of the Securities and Cyprus Stock Exchange Acts of 1993 to (No.3) 2002;

“financial holding company” shall mean a financial institution the subsidiaries of which are exclusively or mainly credit institutions, Investment Services Firms or other financial institutions out of which at least one is a credit institution or an Investment Services Firm;

“financial institution” shall mean an undertaking, which exercises at least one of the activities defined in section 3 of Article 13 of the Regulation of Banking Activities Act 1997 to 2000;

“financial instruments” shall mean the instruments listed in Part II of Annex One;

“financial conglomerate” subject to the Directives of the Cyprus Securities and Exchange Commission regarding financial conglomerates and which refer, among others, to the lowest level of assessment of a financial conglomerate, shall mean the group which fulfills the following conditions:

- (a) the head of the group is a credit institution, an insurance undertaking, an IF or at least one of the subsidiaries of the group is one such undertaking;
- (b) provided the head of the group is a credit institution, an insurance undertaking, an IF and there is, either a parent undertaking of an entity in the financial sector, or an entity which holds a participation in an entity in the financial sector, or an entity which, although not connected with an undertaking in the financial sector with a relationship within the meaning of section 148 of the Companies Law, have been placed along with that undertaking under single management following an agreement or according to the provisions of their articles of association or their management bodies are made up in their majority during a financial year and until the drawing up of the consolidated accounts of the same persons;
- (c) provided the head of the group is not a credit institution, an insurance undertaking, an IF, the activities of the group are exercised mainly in the financial sector within the meaning of the Cyprus Securities and Exchange Commission Directives regarding financial conglomerates;
- (d) at least one of the entities in the group is within the insurance sector and at least one is within the banking or investments services sector;
- (e) the consolidated or aggregated activities of the entities in the group within the insurance sector and the consolidated or aggregated activities of the entities within the banking and investment services sector are both significant within the meaning of the Securities and Cyprus Exchange Commission’s Directives on financial conglomerates;

Provided that any subgroup of a group meets the criteria in this point shall be considered as a financial conglomerate.

Article 3 **Scope of application**

(1) This Act governs the provision of investment and non-core services in the Republic, as well as the provision of investment and non-core services from persons established within the Republic.

(2) This Act shall not apply to:

(a) the Government and the Central Bank or any other natural persons or legal entities authorized by the Government or the Central Bank to act in respect of the exercise of monetary or exchange policy or in respect of public debt management

(b) insurance undertakings as defined in Article 2 of the Insurance Undertakings Acts of 1984 to 2001 including insurance undertakings representatives, brokers or agents thereof, as defined in Article 2 of the above mentioned statutes, providing that the latter solely engage in the promotion of insurance undertakings' products.

(c) undertakings for collective investment in transferable securities within the meaning of the Open end Collective Investment Undertakings and Related Matters Act 2001, including their managers, as well as global collective investment schemes within the meaning of Article 2 of the Global Collective Investment Schemes Act 1999 and 2000.

(d) undertakings or persons which, whether disjunctively or cumulatively

(i) provide investment services exclusively for their parent undertaking or their subsidiaries or for any subsidiaries of their parent undertaking;

(ii) operate in the capacity of welfare or pension fund management boards or committees, entrusted with the exclusive management of their assets or providing investment services consisting exclusively in the administration of employee or pensioner-participation investment portfolio schemes;

(e) persons, the principal professional activity of whom consists in dealing in commodities for professional purposes, whether *inter se* or with the producers or professional users of such commodities (the "counterparties"), who provide investment services exclusively to their counterparties to the extent necessary for the exercise of their principal professional activity.

(3) Natural persons or legal entities domiciled or established within the territory of the Republic may provide the investment service of indent (i) of section 1 of Part I of Annex One providing that they act in the capacity representatives of an Investment Firm which bears full responsibility for their acts in accordance with the relevant provisions of this Act.

Acts of the representatives in question shall be deemed to be those of the Investment Firm itself. Representatives may not act in that capacity in respect of more than one IFs.

(4) The operation within the Republic of Brokerage Firms for the reception and transmission of orders for the conclusion of transactions on transferable securities is hereby authorized pursuant to the provisions of Part XII.

PART II INVESTMENT SERVICES PROVIDERS

Article 4

Provision of investment services

(1) Without prejudice to the provisions of Part XII, only the IFs mentioned in section 5 may provide or purport to provide investment services on a professional basis within the territory of the Republic.

(2) The provision of investment services within the Republic is equated to any provision of or offer for the provision of investment services made from outside the Republic to persons resident or domiciled in Cyprus, providing the above offer reaches such persons while they are within the territory of the Republic or providing the relevant transaction is concluded within the territory of the Republic. The provision of investment services within the Republic is also equated with any provision of or offer for the provision of investment services which comes from within the Republic and is addressed to persons having their domicile or residing outside the Republic.

(3) Whoever infringes the provisions of section (1), is guilty of a criminal offence punishable, in the event of conviction, pursuant to the provisions of section 1 of Article 63.

The infringer shall further be liable for any damage caused to third parties by the illegal provision of investment services, including loss of profits.

(4) Notwithstanding the provisions of section (3), whoever infringes the provisions of section (1) is subject to an administrative fine pursuant to the provisions of indent (a) of section (5) of Article 64.

(5) Without prejudice to the provisions of Part XII, only IFs may provide, on a professional basis, investment advice over financial instruments.

The drawing up of a financial instrument related study by a natural person or legal entity which are not IFs shall not be prohibited, providing that such study shall not amount to a disclosed investment advice or an evaluation of specific financial instruments.

(6) Whoever infringes the provisions of section (5) is guilty of a criminal offence punishable, in the event of conviction, pursuant to the provisions of section (2) of Article 63.

The infringer shall also be liable for any damage caused to third parties by the illegal provision of investment services, including loss of profits.

(7) Notwithstanding the provisions of section (6), whoever infringes the provisions of section (5) is subject to an administrative fine pursuant to the provisions of indent (b) of section (5) of Article 64.

Article 5 **IFs operating in the Republic**

- (1) IFs authorized to operate within in the Republic cover:
- a) CIFs authorized in accordance with the provisions of this Law;
 - b) Credit Institutions established in Cyprus in accordance with the provisions of Articles 21 to 23;
 - c) IFs with their registered office outside the Republic, whether providing investment or non-core services through a branch or operating on a cross-border basis under the free provision of services regime, in accordance with Articles 24-31;
- (2) The inclusion in the company name of undertakings which are not IFs within the meaning of this Act of the terms “investment services”, “provision of investment services”, “financial services”, “provision of financial services”, “stock broking services”, “broker”, or of any other similar terms in any language, is hereby forbidden.
- (3) Whoever infringes the provisions of section (2) is subject to an administrative fine pursuant to indent (c) of section (4) of Article 64.

PART III **PARTICULARS OF CIFs**

Article 6 **Requirements and particulars for the incorporation of CIFs**

(1) Irrespective of the provisions of the Company Act, the Department of Registrar and Official Receiver shall refuse to incorporate an undertaking, the object of which includes the provision of investment services, if such undertaking has not received a relevant authorization from the Cyprus Securities and Exchange Commission in accordance with the provisions of this Act.

Undertakings already operating within the Republic, whose object includes the provision of investment services or whose company name includes any of the terms listed in section (2) of Article 5 without such undertakings being IFs for the purposes of this Act,

- (a) are not entitled to operate as IFs
- (b) are to modify their letters of incorporation and company name, within 2 years of the entry into force of this Act.

Undertakings falling within the scope of the above stipulation shall comply with the duties flowing therefrom before the aforementioned two year period has elapsed on the occasion of the first modification of their articles of incorporation following upon the entry into force of this Act, where such modification is made within the said two year period.

(2) Subject to the provisions of Articles 21 to 23, the company name of undertakings with their registered office in the Republic, whose object includes the provision of at least one investment service, must include the term “Investment Firm”.

(3) The company name of CIFs, which are members of the CSE, must include the adjective “stock exchange” before the term “Firm”.

(4) CIFs may only take up business subsequent to the grant of the relevant authorization pursuant to the provisions of Article 10.

(5) The minimum fully paid up share capital of a CIF shall amount to at least one hundred and twenty five thousand Cypriot Pounds (125,000 CP), where the CIF has been granted authorization for the provision of the following investment services only, or at least any one of them:

a) reception and transmission, on behalf of its clients, of orders in relation to financial instruments.

b) execution of client orders in relation to financial instruments.

The above CIF may not provide any other investment services.

(6) Where a CIF’s authorization includes the investment service of managing client investment portfolios, the minimum fully paid up share capital of such CIF shall amount to at least one hundred and twenty five thousand Cypriot Pounds (150,000 CP), without prejudice to any provisions calling for the payment of a higher share capital.

(7) The minimum fully paid up share capital of a CIF shall amount to at least six hundred thousand Cypriot Pounds (600,000 CP), where the CIF has been granted authorization for the provision of at least one of the following investment services:

a) sale and purchase of financial instruments for own account.

b) provision of underwriting services in respect of issues of financial instruments.

(8) The holding of non-trading-book positions in financial instruments for own funds investment shall not be considered as “dealing” for the purposes of section (7) or for Part I of Annex One read in conjunction with section (2) of Article 10.

Article 7

CIF Articles of incorporation

(1) The Articles of incorporation of a CIF shall list the investment and non-core investment services which the said CIF is authorized to provide.

The CIF’s object may not include commercial activities beyond the provision of investment or non-core services, except where the Cyprus Securities and Exchange Commission has, by way of Resolutions, authorized the exercise of such activities by CIFs and has approved thereof in respect of the specific CIF in the course of the scrutiny of its object, pursuant to section (1) of Article 10.

(2) Notwithstanding the provisions of the Company Act, no amendment in the objects stated in the Articles of incorporation of a CIF and no reduction in its share capital may be made without the prior written authorization of the Cyprus Securities and Exchange Commission, such authorization being attached to any relevant application before the Courts.

(3) Any amendment or intended amendment to the Articles of incorporation of a CIF, beyond those referred to in section (2), shall be notified to the Cyprus Securities and Exchange Commission at least ten full working days prior to the submission before the Department of Registrar and Official Receiver of an amendment application in accordance with the Company Act.

(4) The Cyprus Securities and Exchange Commission may, by justified Resolution, refuse the making of any amendments in the Articles of Incorporation notified thereto where such amendments run counter to securities legislation or to the regular operation of the CIF or of the capital market or where they put investor interests at risk, in any of which cases the Department of Registrar and Official Receiver, to which the Cyprus Securities and Exchange Commission decision will have been forwarded, shall refuse to make the relevant registration.

(5) Notwithstanding the provisions of the Company Act, a CIF shall be entitled to request prior Cyprus Securities and Exchange Commission approval in respect of any amendments to its Articles of incorporation or any reduction of its share capital.

Article 8 **Transfer and acquisition of shares in CIFs**

(1) A CIF shareholder proposing to transfer CIF shares so that, following the said transfer, his direct or indirect holding either falls below the ten percent (10%), twenty percent (20%), twenty five percent (25%), fifty percent (50%) or seventy five percent (75%) of the total share capital or of the voting rights threshold or the CIF ceases to be his subsidiary, shall notify the Cyprus Securities and Exchange Commission at least one calendar month prior to the transfer of shares.

(2) Natural persons or legal entities proposing to acquire CIF shares such that, following the said acquisition, their holding either exceeds the ten percent (10%), twenty percent (20%), twenty five percent (25%), fifty percent (50%) or seventy five percent (75%) of the share capital or of the voting rights threshold or the CIF becomes their subsidiary, shall notify the Cyprus Securities and Exchange Commission at least one calendar month prior to the transfer of shares:

Provided that the entity is an IF, a credit institution or an insurance undertaking authorized to operate in another member-state, or the parent undertaking of an IF, credit institution or insurance undertaking authorized to operate in another member-state, or the natural or legal person controlling an IF, credit institution or insurance undertaking authorized to operate in another member-state, prior to issuing a decision pursuant to subsection (3), the Cyprus Securities and Exchange Commission consults the competent supervisory authorities responsible for the supervision of the said entity.

Further provided that the transfer of CIF shares, except by way of succession *pro mortem* or parental concession, without the prior authorization of the Cyprus Securities and Exchange Commission, is absolutely and entirely null and void as against the IF where, following the said transfer, the successor's shareholding either reaches or exceeds ten percent (10%), twenty percent (20%), twenty five percent (25%), fifty percent (50%) or seventy five percent (75%) of the CIF's share capital or of the voting rights threshold or the investment firm becomes his subsidiary.

(3) Subject to the section (2) exclusions, the Cyprus Securities and Exchange Commission, in deciding whether or not to grant an authorization, shall assess the shares acquirer's suitability for the sound and prudent management of the CIF and issue the relevant resolution, published in the Official Gazette of the Republic, granting or refusing the said authorization.

The Cyprus Securities and Exchange Commission assesses the shares acquirer's suitability at its discretion, subject to the provisions of indent (d) of section (1) of Article 10 and of indent (d) of section (1) of Article 16.

(4) Any transfer of CIF shares for which an authorization is not required shall be notified by the shares acquirer to the Cyprus Securities and Exchange Commission, which shall be entitled to require all requisite particulars with regard to the shareholders if it is of the opinion that the said shareholders might directly or indirectly influence the management of the CIF.

(5) The CIF shall notify the Cyprus Securities and Exchange Commission of any transfer of shares in accordance with section (4) within five days from their announcement to the CIF.

(6) Until January 31st each year, the CIF shall inform the Cyprus Securities and Exchange Commission of the names of shareholders and members possessing qualifying holdings in the course of the preceding year and the sizes of such holdings and of any eventual fluctuations in the course of the year.

(7) Whoever infringes the provisions of sections 1 and 2 shall be subject to an administrative fine pursuant to indent (d) of section (5) of Article 64.

(8) Whoever infringes the provisions of section (4) shall be subject to an administrative fine pursuant to indent (d) of section (5) of Article 64.

(9) CIFs violating the provisions of sections (5) and (6) are guilty of a administrative offence punishable pursuant to indent (f) of section (4) of Article 64.

(10) For the assessment of the CIF shares held by a natural person or legal entity, CIF shares held by such natural person or legal entity indirectly, within the meaning of Annex Two, shall be taken into account.

(11) Each CIF shareholder shall notify thereto, in the course of the CIF's operation, any shares indirectly held therein, notifying it of the natural persons or legal entities through the medium of which the said shares are held. Such notification shall be made, at the latest, within 5 days of the indirect acquisition of the shares.

(12) Whoever infringes the provisions of section 11 shall be subject to an administrative fine pursuant to indent (g) of section (4) of Article 64.

Article 9

Special provisions relating to the transfer of stock exchange listed CIF shares

(1) Where CIF shares are listed on the CSE or in any other European Union member state or third country stock market, the direct or indirect acquisition of shares exceeding the thresholds set out in section (2) of Article 8, without the prior authorization of the Cyprus Securities and Exchange Commission, shall not entail the nullity of the acquisition of shares but, instead, suspension of the infringers' voting rights at the CIF general meeting until such time as an authorization has been granted.

(2) Where the CIF shares in question have been listed on any of the exchanges stipulated in section (1), the notification duties in sections (4) and (5) of Article 8 shall not apply.

(3) In order for a CIF to apply for the listing of its shares on a third country stock exchange, prior grant of a Cyprus Securities and Exchange Commission authorization is required.

Where the CIF is the subsidiary of a credit institution supervised by the Central Bank, the CIF shall also seek the grant of a Central Bank authorization for the listing of its shares in the said third country stock exchange.

PART IV

CIF OPERATING CONDITIONS

Article 10

CIF Authorization

(1) The Cyprus Securities and Exchange Commission shall grant a CIF authorization to an undertaking, whether existing or under formation, hereinafter referred to as "the applicant" for the purposes of Articles 10,11, 12 and 13, for the provision of the investment services and non-core services enumerated in the said authorization, providing the applicant's objectives comply with this Act and have been approved by the Cyprus

Securities and Exchange Commission pursuant to the provisions of this Article and providing the applicant disposes of the appropriate shareholders and of the requisite administrative structure, personnel, technical and financial resources in order to be in a position to provide the services in question, pursuant to the provisions of this Act, without exposing investor interests or the regular operation of the capital market to risks, and in particular providing that:

- (a) it disposes or shall, according to its business plan, dispose as of its inception and throughout its operation and shall maintain on a constant basis, depending on the investment services it shall be providing, the minimum initial and ... capital required under this Act;
- (b) it disposes or shall, according to its business plan, dispose as of its inception and throughout its operation, of at least two experienced and reliable persons to manage its business, the said persons being capable to exercise their duties;
- (c) it disposes or shall, according to its business plan, dispose as of its inception and throughout its operation, of the requisite administrative structure, personnel, technical and financial resources in relation to the types of business envisaged;
- (d) shareholders possessed of a qualifying holding or otherwise capable of exercising an influence over the management and business strategy of the applicant, are fit to ensure its sound and prudent running.

(2) Without prejudice to the provisions in section (1), supra, for the purpose of granting a CIF authorization, the Cyprus Securities and Exchange Commission shall assess, in particular, the adequacy of the applicant's organizational and administrative structure and of its technical and financial resources, the reliability, experience, professional skill and professional diligence of the persons who shall direct its business as well as the suitability of any shareholders possessed of a qualifying holding in the firm from the point of view of its sound and prudent management.

(3) Concerning the organization, the administrative structure of the applicant and its technical resources, the Cyprus Securities and Exchange Commission shall examine, in particular, whether or not the applicant disposes or shall, according to its business plan, dispose as of its inception and throughout its operation:

- a) sound administrative, technical and financial structure, appropriate control and safeguard arrangements for electronic data processing and adequate internal control mechanisms including, in particular, rules in respect of the transactions operated by its agents and employees and transactions' record keeping such as to render feasible monitoring of the data which the applicant issues and maintains for at least seven years, in accordance with the provisions of Article 36 in particular, as well as compliance with the prudential supervision rules;
- b) adequate organization and mechanisms such as to guarantee protection of investors' financial instruments and capital,
- c) structure and organization such as to minimize the risk of its clients' interests being prejudiced by conflicts of interest between the applicant and its clients or in between any of its clients.

(4) Cyprus Securities and Exchange Commission Resolutions may specify the criteria set out in sections (1), (2) and (3), regard been had to the type of investment and non-core services that the applicant shall be providing, make provision for issues relating to the procedure for the grant and entry into operation of a CIF authorization and draw up rules of conduct which CIFs shall observe at all times.

By way of these Resolutions special provisions may be introduced for investment undertakings operating at the time of entry into force of this Act and applying for the grant of a CIF authorization, setting out special rules in respect of the liquidity and capital adequacy requirements which such undertakings ought to meet at the time of their application for the grant of a CIF authorization and shall maintain throughout the first months of their operation as CIFs, in order to be eligible for the grant of a CIF authorization.

(5) The application to the Cyprus Securities and Exchange Commission for the grant of an authorization shall enumerate the investment and non-core services with regard to which the authorization is requested and shall be accompanied by:

- a) a business plan, including a full operations schedule stating in particular the investment and non-core services which the applicant proposes to provide and its organizational structure, a presentation of the relevant plan for its prospected financial growth for the first two financial years and the names of at least two experienced and reliable persons who shall direct its business;
- b) the applicant's preliminary Articles of incorporation or draft Articles, such as they are expected to be formulated after the grant of the CIF authorization.
- c) an excerpt of the criminal record, certificates of non-insolvency and *resumes* of the members of the applicant's Board of Directors, its executives and shareholders possessed of a qualifying holding in it, as well as their answers to the questionnaire the contents of which shall be determined by Cyprus Securities and Exchange Commission Resolution.
- d) a draft of the applicant's internal regulation, including in particular the applicant's internal control and risk management mechanisms, any special measures which the applicant has adopted with a view to rendering such internal regulation compatible with the CIF prudential rules and business conduct rules, as well as any other necessary internal regulations, depending on the investment and non-core services which the CIF proposes to provide.
- e) a draft organization schedule of the applicant.
- f) a description of the applicant's computer network and electronic infrastructure.
- g) a draft regulation, in accordance with acceptable practices, for the prevention of the legalization of the proceeds of criminal-activities.

(6) If shareholders possessed of a qualified holding are legal entities, the Cyprus Securities and Exchange Commission may also require submission of the particulars of indent (c) of section (5) by the natural persons directing them as well as by shareholders with a qualified holding through to the natural persons themselves.

Whenever necessary for the assessment of the suitability of the persons controlling the applicant, the Cyprus Securities and Exchange Commission may require submission of the above particulars from other shareholders too.

(7) In order to assess the concurrence of the legal requirements for the grant of a CIF authorization, the Cyprus Securities and Exchange Commission may, by resolution, prescribe the data to be submitted pursuant to section (5) and require the submission of any further documents.

(8) The CIF authorization specifies the corporate name of the applicant and its objects, its principal shareholders, the members of its Board of Directors, the names of the two persons responsible for its direction, the investment and non-core services which the CIF shall be authorized to provide, the date of grant of the authorization, the eventual conditions upon which it has been issued, and such other particular as the Cyprus Securities and Exchange Commission deems necessary.

(9) A CIF authorization shall not be granted for the provision of non-core investment services only.

(10) (a) In order for the Cyprus Securities and Exchange Commission to issue a CIF authorization for an applicant which:

- (i) is a subsidiary of an IF or of a credit institution authorized to operate in another member state of the European Union; or
- (ii) is a subsidiary of the parent IF or of a credit institution authorized to operate in another member state of the European Union; or
- (iii) is controlled by the same natural or legal person who controls the IF or a credit institution which has received an authorization in another Member-State of the European Union,

the Cyprus Securities and Exchange Commission shall require the opinion of the competent supervisory authorities of such Member State as has granted the relevant authorization, exchanging all requisite information therewith with regard to the application.

(b) In order for the Cyprus Securities and Exchange Commission to issue a CIF authorization to an applicant which:

- (i) is a subsidiary of a credit institution or an insurance undertaking authorized to operate in another member state of the European Union; or
- (ii) is a subsidiary of the parent credit institution or insurance undertaking authorized to operate in another member state of the European Union; or
- (iii) is controlled by the same natural or legal person who controls the credit institution or the insurance undertaking authorized to operate in another member state of the European Union,

the Cyprus Securities and Exchange Commission shall require the opinion of the competent regulatory authorities of such member state, responsible for the supervision of credit institutions or insurance undertakings.

(c) The relevant competent authorities referred to in paragraphs (a) and (b) consult each other, in particular regarding the assessment of the suitability of the shareholders and the reputation and experience of directors involved in the management of another entity of the same group, while informing each other of any information regarding the suitability of the shareholders and the reputation and experience of directors, which is of relevance to the other competent authorities for the granting of an authorization, as well as for the ongoing assessment of compliance with operating conditions.

(11) the Cyprus Securities and Exchange Commission shall only grant a CIF authorization if there are no close links, within the meaning of Appendix Four, between the applicant and any other natural person or legal entity capable of obstructing the effective exercise of its supervision.

(12) The Cyprus Securities and Exchange Commission shall not grant a CIF authorization where the applicant has close links, within the meaning of Appendix Four, with any other natural person or legal entity subject to or governed by the law of any third, the laws of which, as applied, may obstruct the effective exercise of the supervision.

(13) The Cyprus Securities and Exchange Commission shall, within six calendar months following upon submission of a duly completed application for the grant of a CIF authorization, reach a decision either granting such authorization or refusing the application.

(14) An eventual refusal of an application for the grant of a CIF authorization shall be adequately justified.

(15) CIFs shall stipulate in all their documents, announcements, or advertisements their authorization number and shall display the said authorization it at a visible place at their head offices as well as in any of their branches. Furthermore, they shall dispose of a website, the address of which they shall notify to the Cyprus Securities and Exchange Commission, where they shall display their authorization number, the contents thereof and any amendments thereto, their general trading terms as well as whichever other particular the Cyprus Securities and Exchange Commission might designate from time to time.

(16) For the extension of a CIF authorization to other investment and non-core services, the CIF shall submit a relevant application to the Cyprus Securities and Exchange Commission which shall decide on the matter accordingly, applying the provisions of this Article by analogy.

Article 11

Special provisions for the grant of an authorization to a CIF under formation

(1) Where the application submitted concerns an applicant under formation, the relevant applications and documentation, pursuant to Article 10, shall be submitted to the Cyprus Securities and Exchange Commission by the applicant's incorporators.

(2) The Cyprus Securities and Exchange Commission may demand that the applicant's initial capital be fully paid up into a special bank account prior to granting thereto the relevant CIF license.

(3) A CIF license issued to an applicant under formation shall lapse if the applicant has not been legally incorporated within the deadline stipulated in the decision, which deadline may not exceed three months.

(4) The Cyprus Securities and Exchange Commission may demand from the incorporators of an applicant under formation all necessary documentation and data in order to ascertain the seriousness of the enterprise and may, in particular, demand that one half (½) of the applicant's initial capital be deposited into a bank account, where it shall remain in escrow, until such time as the relevant application has either been upheld or rejected.

(5) Without prejudice to the provisions of the Company Act, the Department of Registrar and Official Receiver shall not register an applicant under formation, unless a CIF authorization has been granted by the Cyprus Securities and Exchange Commission and unless the applicant's entire initial capital has been fully paid up into a bank account.

Article 12

Payment of duties

(1) For the examination by the Cyprus Securities and Exchange Commission of an application for the grant of a CIF authorization and for its amendment as well as in respect of applications for the grant by the Cyprus Securities and Exchange Commission of any authorization or approval provided for under this Act, the duties stipulated in Part I of Annex Six hereto shall be paid alongside submission of the relevant application.

(2) The duties stipulated in Part II of Annex Six shall be paid by any natural person or legal entity proceeding to the making of any mandatory notification to the Cyprus Securities and Exchange Commission, providing the contents thereof are subject to the approval of the Cyprus Securities and Exchange Commission which may, by Resolution, prescribe the notifications in respect of which the duties referred to in the present section are to be paid.

(3) The duties paid pursuant to sections (1) and (2) shall accrue to the Cyprus Securities and Exchange Commission.

Article 13

Duty to inform the European Commission

The Cyprus Securities and Exchange Commission shall inform the European Commission in respect of any authorization granted to any applicant who, directly or indirectly, is a subsidiary of any one or more parent undertakings governed by the law of any third-country as well as of cases where any one of the said undertakings has acquired a holding in a CIF as a result of which the latter has become its subsidiary. Such notification shall specify the structure of the group of companies of the parent undertaking or undertakings concerned.

Article 14

Continuous CIF duties throughout its operation

(1) CIFs shall, throughout the course of their operation, maintain a sound structure and personnel, complying with the relevant duties arising from the provisions of Articles 32 to 42, and shall generally fulfill all conditions wherefrom the grant of a CIF authorization depends, especially those in Article 10, including the duties set out up by Capital Market Committee Resolution on the powers conferred by section (4), Article (10).

(2) CIFs shall at all times dispose of at least two experienced and reliable persons to manage its business.

(3) The minimum own funds of CIFs providing at least one of the investment services in either indent 1 or indent 3 or in both indents of Part I of Annex One shall never fall short of the sum of one hundred thousand Cypriot Pounds (100.000 CP).

CIFs of this section may not provide any of the investment services in indents 2 and 4 of Part I of Annex One.

(4) The minimum own funds of CIFs providing at least one of the investment services in either indent 2 or indent 4 of Annex One shall never fall short of the sum of five hundred thousand Cypriot Pounds (500.000 CP).

(5) In the event that a CIF should fail to comply with the provisions of sections (3) and (4), supra, the Cyprus Securities and Exchange Commission shall either suspend its CIF authorization in accordance with the provisions of section (2) of Article 16, below, or set a two calendar month deadline for its capital to be increased, upon expiration of which the Cyprus Securities and Exchange Commission shall proceed to the suspension of its CIF authorization where such increase has not been achieved.

Article 15

Supervision of the sound direction and organization of the CIF

(1) Without prejudice to any of the provisions in this Act which impose any stricter terms or procedures, any projected modification of the particulars submitted to the Cyprus Securities and Exchange Commission for the grant of an authorization, as amended each time in the course of the CIF's operation, especially with regard to the members of its Board of Directors, its officers and dignitaries, its organizational schedule, its business plan, its internal regulation and other regulations pertaining to its organization and to the

operation of the CIF, depending on the services it provides and on its regulation setting out procedures for the prevention of the legalization of revenues from criminal activities, shall be notified to the Cyprus Securities and Exchange Commission at least ten working days before the amendment has been introduced.

(2) If the Cyprus Securities and Exchange Commission considers that the projected modifications might affect the reliability of the direction or the structure and sound operation of the CIF or the regular operation of the market or the interests of investors, it may, by Resolution, prohibit the making of any such amendments or attach render it conditional upon the fulfillment of certain conditions.

The Cyprus Securities and Exchange Commission may render continuation of the operation of a CIF, to which amendments within the meaning of section (1) have been made, conditional upon compliance with any conditions it might set for the purpose of restoring its conditions of operation.

(3) The members of the CIF's Board of Directors and its officers shall notify to the Cyprus Securities and Exchange Commission in writing, without undue delay, any new significant item which has come to their knowledge and which is capable of exercising an adverse influence over their judgement and ability to manage the CIF.

The same duty weighs upon the CIF itself, provided it was aware or ought to have been so aware of such item.

(4) The Cyprus Securities and Exchange Commission may, by Resolution, prescribe the documents to be submitted to it pursuant to this Article and regulate any specific issue or necessary details.

Article 16

Withdrawal and suspension of a CIF authorization

(1) The Cyprus Securities and Exchange Commission may withdraw a CIF authorization where the CIF:

- a) has not made use thereof within 6 months following its grant;
- b) has requested in writing that its authorization be withdrawn or has ceased to provide investment services for a period of at least three months;

- c) has obtained its authorization by false or misleading statements or by any other irregular means or has not complied with the conditions of its grant;
- d) no longer fulfils the conditions upon which authorization has been granted as well as any of the conditions in Article 14;
- e) if the CIF own funds have fallen below those required under this Act, or if the CIF has not complied with the provisions in Part X of this Act or with any Resolutions adopted on the powers conferred thereunder on capital adequacy;
- f) if the CIF has seriously and repeatedly infringed the provisions in Part VII, Part VIII and Part XII of this Act.

The Cyprus Securities and Exchange Commission may, by Resolution, prescribe the terms upon which a CIF authorization shall be withdrawn pursuant to indents (c), (d), (e) and (f).

(2) In the context of indents d), e) and f) of section 1, the Cyprus Securities and Exchange Commission may, upon evaluation of the gravity of the alleged infringements and after allowing the CIF at least five days within which to express its views with regard thereto, instead of permanently withdrawing its authorization, suspend its effect in whole or in part, with regard to the investment services in question, allowing the CIF a period of no more than three months within which to achieve compliance with the provisions of this Act.

The Cyprus Securities and Exchange Commission may, by Resolution, prescribe the terms under which a CIF authorization may be withdrawn.

In the event of such withdrawal, the CIF may no longer provide any of the investment and non-core services with respect to which the authorization was withdrawn.

(3) Suspension of authorization in whole or in part with regard to specific investment or non-core services, pursuant to section (2) may also be imposed by the Cyprus Securities and Exchange Commission whenever else the CIF's continued operation puts at risk the regular operation of the market or investor interests.

(4) Upon expiry of the period stipulated in section (2) and upon a prior hearing, the Cyprus Securities and Exchange Commission shall permanently withdraw the CIF authorization or its authorization in respect of the provision of specific investment and non-core services, if the CIF has not complied with the legal provisions in force and the relevant Cyprus Securities and Exchange Commission admonitions.

(5) The Cyprus Securities and Exchange Commission may, subsequent to a hearing in respect of which a two hour period shall be allowed, suspend the operation of a CIF either in whole, for up to three working days, or in part, for up to six working days, if there are serious suspicions of significant infringements by the CIF of capital market or of other related legislation and if the Cyprus Securities and Exchange Commission is of the opinion that continued operation of the CIF would put at immediate risk investor interests or the regular operation of the market.

(6) The measure provided for in section (5) may only be imposed upon a CIF once every two years.

(7) Upon withdrawal of a CIF authorization, a CIF shall immediately cease to provide investment or non-core services or any of the services in respect of which the authorization has been withdrawn.

(8) A CIF whose authorization has been withdrawn, in whole or in part, shall, within three calendar months from the date of notification thereto of the relevant Cyprus Securities and Exchange Commission Resolution, settle any outstanding obligations thereof arising from the provision of any of the services which it no longer is allowed to provide.

(9) Where an authorization for the provision of investment services has been withdrawn, the Cyprus Securities and Exchange Commission may, in accordance with the provisions of the Companies Act, demand that a receiver be appointed by the Companies Registrar to undertake settlement of CIF obligations vis-à-vis its clients.

Article 17 **Establishment of a CIF branch in the Republic**

(1) A CIF proposing to establish a branch in the Republic shall notify to the Cyprus Securities and Exchange Commission its intentions, prescribing:

- i) the address of the branch;
- ii) the identity of its directors;
- iii) the branch's business plan which must include, *inter alia*, the nature of the business which the branch shall undertake as well as its organizational structure.

(2) If the Cyprus Securities and Exchange Commission considers satisfactory the organizational structure and financial standing of the CIF, it shall notify to the CIF its Resolution within two (2) calendar months from the submission of the notification of section (1).

(3) If the Cyprus Securities and Exchange Commission, on the basis of the particulars submitted to it, and after taking into consideration the overall organization, financial standing and technical structure of the CIF, considers that the establishment of a branch would put investor interests at risk, it shall issue a Resolution prohibiting establishment thereof, offering its reasons for so doing.

(4) In the event that the content of the notification particulars in subsections i), ii) and iii), are expected to be amended, the CIF shall notify to the Cyprus Securities and Exchange Commission the intended amendments at least 15 working days prior to their introduction.

(5) The Cyprus Securities and Exchange Commission may prohibit the making of the modifications referred to in section (4), applying *mutatis mutandis* the provisions of section (3), whereupon it shall notify its refusal to the CIF, giving reasons for so doing. The CIF shall thereupon be prohibited from operating the projected amendments.

Article 18 **Cooperation with Brokerage Companies for the Reception and Transmission of Orders (BFRTOs)**

(1) The CIF shall inform the Cyprus Securities and Exchange Commission of any collaboration it has with a BFRTO, as well as of the interruption of any such collaboration.

(2) In the interests of the protection of the regular operation of the market, the legitimate operation of CIFs and BFRTOs as well as investor interests, the Cyprus Securities and Exchange Commission may, by Resolution, determine the measures that

the CIF shall take in the course of its collaboration with a BFRTO, the special duties which CIFs shall observe in the course of such collaboration for the protection of the orderly operation of the Market, the legitimate operation of companies, including compliance with the provisions of this Act, and investor interests as well as any other issue pertaining to the collaboration in between CIFs and BFRTOs.

Article 19
Provision of services through a representative

(1) A CIF proposing to provide investment or non-core services through a representative within the meaning of section (3) of Article (3), shall notify to the Cyprus Securities and Exchange Commission its intention at least one calendar month prior to the taking up of business of the representative, and submit a written declaration to the Cyprus Securities and Exchange Commission assuming full liability in respect of the acts or omissions of such representative.

(2) The section (1) declaration shall be publicized by the Cyprus Securities and Exchange Commission and shall be included into the CIF web page.

(3) The Cyprus Securities and Exchange Commission may, by Resolution, determine the minimum content of the contract in between the CIF and the representative, so as to establish the CIF's liability, the declarations and notifications to the Cyprus Securities and Exchange Commission to which the CIF ought to proceed as well as any other related issue or necessary detail.

(4) The CIF representative shall successfully sit the examination provided for under section (3) of Article 32, in respect of the activities which he shall be authorized to exercise.

(5) In the event that the representative should be a legal entity, such entity shall employ at least one natural person fulfilling the conditions set out in section (4).

Such natural person shall not provide any other investment or non-core services in his capacity as representative of any other CIF, representative or BFRTO.

(6) The Cyprus Securities and Exchange Commission supervises the performance by CIF representatives of the provisions of this Act, being entitled to exercise such supervision either itself or through auditors appointed for that purpose, along the lines of its supervision of CIFs.

Representatives shall place at the Cyprus Securities and Exchange Commission's disposal their books and data as well as any other document necessary for the exercise of control, pursuant to this Act and to any regulatory acts issued on the powers conferred hereunder.

(7) CIFs shall submit to the Cyprus Securities and Exchange Commission a list of their representatives and branches wherefrom they shall be providing their services and

shall inform, without undue delay, the Cyprus Securities and Exchange Commission of any amendments thereto.

(8) The provisions of Part VIII in respect of CIF rules of conduct shall also apply to CIF representatives who shall uphold them, as shall CIFs.

(9) Notwithstanding the provisions of Article 42, infringement by a CIF representative of the provisions of Part VIII, as well as of the provisions in this Act concerning CIF representatives, shall amount to an administrative offence, punishable pursuant to the provisions of indent (h) of section (4) of Article 64.

Article 20

Submission of financial data to the Cyprus Securities and Exchange Commission

(1) CIFs shall submit to the Cyprus Securities and Exchange Commission a yearly report per financial year, audited by independent and approved auditors, a biannual report for the first six months of the financial year and quarterly reports.

(2) The reports mentioned in section (1) shall be submitted to the Cyprus Securities and Exchange Commission within:

- i) six calendar months, for the yearly report
- ii) three calendar months, for the biannual report and
- iii) one calendar month, for the quarterly report.

as of the end of the period to which they refer.

(3) The form of these reports shall be determined by the Cyprus Securities and Exchange Commission, particularly in relation to the yearly report, which shall be composed of a detailed balance sheet, profit and loss account and cash flow sheet prepared in accordance with international accounting standards and the auditors' report.

PART V

PROVISION OF INVESTMENT SERVICES BY CREDIT INSTITUTIONS

Article 21

Requirements for the provision of investment services

(1) Credit institutions incorporated within the Republic may provide whether within its territory or beyond it, the services of Article 2 and may, in general, operate as CIFs within the meaning of Article 4 provided they have received an authorization by the Central Bank, in accordance with the provisions of the Banking Acts 1997 to 2000 for the provision of investment and non-core services.

(2) The Central Bank may issue Resolutions prohibiting the provision of investment or non-core services by credit institutions incorporated or operating within the Republic.

Article 22
Conditions for the cooperation of credit institutions with BFRTOs and representatives

(1) The Central Bank may issue Resolutions authorizing the cooperation between credit institutions operating in the capacity of CIFs and BFRTOs and prescribing the special duties which credit institutions ought to meet, including those imposed by provisions of this Act, in the course of the said cooperation, for the purpose of safeguarding the integrity of the market, investor interests and the legitimate operation of credit institutions.

(2) The Central Bank may issue Resolutions authorizing the provision of investment and non-core services by credit institutions through representatives, within the meaning of section (3) of Article 3, prescribing the particular conditions and duties which they ought to meet in the course of the said cooperation, for the purpose of safeguarding the integrity of the market, investor interests and the legitimate operation of credit institutions.

(3) The credit institution representative must have passed the examinations provided for under section (3) of Article 32 concerning the activities which the representative shall be authorized to exercise.

(4) In the event that the representative should be a legal entity, such entity shall employ at least one natural person fulfilling the condition set out in section (3).

Such natural person may not provide any other investment or non-core services in his capacity of representative of any other CIF, representative or BFRTO.

(5) The Central Bank supervises the performance by the credit institution representatives of the provisions of this Act, being entitled to exercise its supervision either itself or through auditors appointed for that purpose, in much the same way as it supervises credit institutions.

Representatives shall place at the Central Bank's disposal their books and data as well as any other document necessary for the exercise of control, pursuant to the provisions of banking legislation and capital markets regulation.

(6) The provisions of Part VIII in respect of the rules of professional conduct of CIFs shall also apply to credit institution representatives who shall uphold them, as shall credit institutions.

(7) Notwithstanding the provisions of Article 42, infringement by any credit institution representative of the provisions of Part VIII shall amount to an administrative offence, punishable pursuant to the provisions of indent (h) of section (4) of Article 64.

Article 23
Central Bank Supervision

The Central Bank exercises the regulatory powers provided for under this Act and supervises compliance with the provisions of this Act with regard to

- (i) credit institutions incorporated within the Republic,
- (ii) credit institutions not incorporated within the Republic, providing their state of origin is a third country

In the course of the provision by the said credit institutions of investment or non-core services by them.

The provisions of this Act shall not prejudice banking legislation provisions concerning the supervision of credit institutions by the Central Bank.

Undertakings which the Cyprus Securities and Exchange Commission deems to be credit institutions pursuant to Article 39 of the Banking Business Acts 1997 to 2000, for as long as the latter do not engage in banking activities pursuant to Article 2 of the said Act, are not credit institutions within the meaning of this Act and are not subject to the supervisory control of the Central Bank but, rather, to that of the Cyprus Securities and Exchange Commission, without prejudice to the exercise over them of Central Bank supervisory control for the purposes of the Banking Business Acts 1997 to 2000.

PART VI
REQUIREMENTS FOR THE ESTABLISHMENT AND THE CROSS BORDER
PROVISION OF INVESTMENT SERVICES IN THE REPUBLIC BY AN
INVESTMENT FIRM INCORPORATED OUTSIDE CYPRUS

Article 24

Freedom of establishment in the Republic of an Investment Firm incorporated in a member state of the European Union

(1) An Investment Firm, excluding credit institutions, which has received an authorization in a Member-State of the European Union and is supervised by the competent authorities of that Member-State may operate within the Republic through a branch and provide through that branch investment and non-core services in respect of which it has received an authorization by the competent authorities of its home member state, as defined in Annex Three, without the need for an authorization to be granted by the Cypriot Supervisory Authorities.

(2) An Investment Firm, excluding credit institutions, which has received an authorization in a Member-State of the European Union may commence to provide investment and/or non-core services within the territory of the Republic two calendar months subsequent to receipt by the Cyprus Securities and Exchange Commission of a notification by the competent authorities of the home member state, whereby the following are notified:

- a) a business plan setting out the categories of business which the CIF shall undertake within the Republic through the branch
- b) the organizational structure of the branch;
- c) the address of the branch
- d) the names of the branch directors
- e) the compensation schemes covering the investors and the clients of the branch as well as the transactions those cover and the terms of their operation.

(3) The process and conditions for the establishment within the Republic of a credit institution incorporated within a Member-State and operating as a CIF are set out in the relevant banking regulation provisions.

(4) An Investment Firm, excluding credit institutions, which has received an authorization in a Member-State of the European Union must:

(a) with regard to the investment and non-core services which it shall provide through the branch in Cyprus, abide by the principles in the interest of the general good which govern the Cypriot market and the rules of business conduct governing the provision of the relevant investment and non-core services in the Republic by an IF.

(b) Draw up and publish yearly financial statements, audited by an independent auditor, for the activities exercised in the Republic in accordance with the provisions of the Companies Act.

(c) Submit on a regular basis or upon specific request, the particulars which are defined and requested by the Cyprus Securities and Exchange Commission or other supervisory organs as to the activities exercised in the Republic and to its financial situation, by equal application of the provisions applicable for the CIF with registered office in Cyprus.

(d) provide to the Central Bank, for statistical purposes, the information which CIFs with a registered office in the Republic also provide in relation to their capital movements.

(5) The rules referred to in indent (a) of section (4) are notified by the Cyprus Securities and Exchange Commission to the CIF prior to the expiry of the period subsequent to which the latter may commence to provide its services within the Republic in accordance with section (1). It is incumbent upon CIFs to take notice of any new rules or of any amendments thereto.

The Cyprus Securities and Exchange Commission may at any time notify to the CIF any rules additional to such rules as it has already issued.

(6) The Cyprus Securities and Exchange Commission may notify to CIFs operating within the Republic via a branch in accordance with section (1) any new necessary information which the latter may have to submit, and any additional formalities which it may have to observe, as well as any amendment thereto.

CIFs referred to in this Article are subject to the prudential rules of their state of origin and supervised by the competent supervisory authorities in respect of their compliance thereto.

Article 25 **Amendment of the rules of establishment**

(1) An Investment Firm established within the Republic in accordance with section (1) of Article 24 is entitled to amend

- a) its business plan
- b) the organizational structure of the branch;
- c) the address of the branch
- d) the names of the branch directors

provided the relevant competent authority of its home member state has notified the amendments in question to the Cyprus Securities and Exchange Commission.

(2) Subject to section (4) hereunder, once the Cyprus Securities and Exchange Commission has received the relevant competent home member state notification it notifies to the IF the rules directed at safeguarding general interest, including any rules of business conduct, governing the provision within the Republic of the investment and non-core services which the IF branch shall be providing in Cyprus.

(3) In any event, the Cyprus Securities and Exchange Commission notifies the branch of the Investment Firm that it has received a relevant notification by the competent authority of the member state of that investment firm.

(4) Any changes in the particulars of section (1) are notified by the investment firm directly to the Cyprus Securities and Exchange Commission at least one calendar month prior to their entry into force.

Article 26

Freedom to provide cross-border investment services in the Republic by an investment firm incorporated in a member state of the European Union

(1) An Investment Firm, excluding credit institutions, which has received an authorization in a Member-State of the European Union and is supervised by the competent authorities of that Member-State may offer investment and non-core cross-border services in the Republic in respect of which it has received an authorization by the competent authorities of its home member state, without the need for an authorization to be granted by the Cypriot Supervisory Authorities, subsequent to a relevant notification provided for under section (2).

(2) An Investment Firm, excluding credit institutions, is entitled to commence the free provision of investment and non-core services in the Republic following the receipt by the Cyprus Securities and Exchange Commission of a notification by the competent authorities of its home member state, addressed to the Cyprus Securities and Exchange Commission, whereby the business plan which the Investment Firm intends to implement within the Republic is notified.

(3) The relevant banking legislation provisions determine the procedure governing free provision of cross-border investment and non-core services within the Republic by credit institutions established in any Member-State.

(4) An Investment Firm providing investment and non-core services in the Republic in accordance with section (1) is obliged to abide by the rules directed at safeguarding general interest, including any rules of business conduct, governing the provision within the Republic of the investment and non-core services which the IF branch shall be providing on a cross-border basis in the Republic.

(5) The Cyprus Securities and Exchange Commission shall notify to the IF the rules referred to in the preceding section.

(6) IFs carrying on business in the Republic under the free provision of investment services regime are obliged to communicate all necessary details and information to the Cyprus Securities and Exchange Commission in the interests of safeguarding the efficient monitoring of their compliance with all matters falling within the supervisory responsibility of the Cyprus Securities and Exchange Commission.

(7) Amendments to any of the particulars communicated in accordance with section (2), shall be notified by the IF concerned to the Cyprus Securities and Exchange Commission as well as to the competent home state authorities.

The relevant IF notification to the Cyprus Securities and Exchange Commission shall be made before the intended amendments enter into force.

(8) In the event of any amendments in accordance with section (7), the Cyprus Securities and Exchange Commission shall notify the investment firm of any necessary particulars, especially in consideration of the above change, which it has made known to the investment firm in accordance with the last indent of section (5).

CIFs referred to in this Article are subject to the prudential rules of their state of origin and supervised by the competent supervisory authorities in respect of their compliance thereto.

Article 27 Establishment of a CIF outside Cyprus

(1) CIFs intending to establish a branch beyond the territory of another State shall inform the Cyprus Securities and Exchange Commission of their intention, setting out:

- (a) the State within the territory of which they plan to establish a branch;
- (b) the address of that branch.
- (c) the names of those responsible for the management of the branch
- (d) a program of activities containing, inter alia, the types of business envisaged and the organizational structure of the branch.

(2) Where the CIF branch in question is to be established in another member state of the European Union, and unless the Cyprus Securities and Exchange Commission has reason to doubt the adequacy of the firm's administrative structure or financial situation, it shall, taking into consideration the activities envisaged, within three calendar months of receiving the information referred to in section (1), communicate that information as well as the details of the compensation scheme intended to protect the branch's investors as well as the transactions covered thereunder and the conditions for its operation.

(3) The Cyprus Securities and Exchange Commission shall inform the CIF concerned accordingly within three calendar months.

(4) Where the Cyprus Securities and Exchange Commission, on the basis of the particulars submitted by the CIF and taking into account the organization, financial situation and administrative structure of the CIF finds that the creation of a branch puts the investors' interests at risk, refuses to communicate the information referred to in section (1) to the competent authorities of the host member state, it shall give reasons for its refusal to the CIF concerned within three (3) months of the date of submission of the section (1) notification.

(5) In the event of any impending amendment to any of the particulars communicated to the Cyprus Securities and Exchange Commission in accordance with section (1), the CIF shall give written notice of these amendments to both the Cyprus Securities and Exchange Commission and to the competent authorities of the host member state at least one (1) calendar month before implementing that amendment.

(6) The Cyprus Securities and Exchange Commission shall inform the authorities of the host member state of the said amendments within the one calendar month period stipulated in section (5). The Cyprus Securities and Exchange Commission may refuse to notify the amended particulars, applying by analogy section (4), in which case it is to give reasons for its refusal to the CIF, which shall be prohibited from implementing those amendments.

(7) The Cyprus Securities and Exchange Commission notifies to the competent authorities of the host member state where the branch of a CIF is carrying on business any change in the investor compensation scheme.

(8) In the event that the branch is to be established in a country which is not a member state of the European Union, the Cyprus Securities and Exchange Commission may prohibit such establishment if, in consideration of the particulars submitted by the CIF and of its organization, financial situation and administrative structure, it has reason to believe that the establishment of the branch would put the investors' interests or the orderly operation of the CIF at risk.

(9) Any CIF proposing to acquire a qualifying holding in an investment firm with a registered office outside Cyprus, shall notify the Cyprus Securities and Exchange Commission accordingly.

Article 28

Provision of investment and non-core services by a CIF outside Cyprus

(1) Any CIF desirous of providing cross-border investment or non-core services within the territory of another state for the first time under the free provision of services regime shall inform the Cyprus Securities and Exchange Commission of its intention, prescribing at the same time the state where it intends to operate as well as the services it plans to offer, stating in particular the personal investment and non-core services which it intends to provide.

Such services must be covered by the CIF authorization.

(2) In the event of provision of investment services in accordance with section (1) of this Article in a member state of the European Union, the Cyprus Securities and Exchange Commission notifies the competent authorities of the home member state accordingly, within one month of receiving the information referred to in the previous section.

A CIF may not commence to provide its services in the state in question before the above notification.

(3) In the event of provision of investment services in accordance with section (1) of this Article in a state which is not a member of the European Union, the Cyprus Securities and Exchange Commission may prohibit the establishment of a branch in that state if it has reasons to believe that the operation of the branch in that state would put the investors' interests or the orderly operation of the CIF at risk.

Article 29

Establishment of a branch in the Republic of an investment firm incorporated in a state, which is not a member of the European Union

(1) An investment firm with a registered office in a third country must receive an authorization from the Cyprus Securities and Exchange Commission in order to establish a branch in Cyprus.

(2) For the Cyprus Securities and Exchange Commission to grant an authorization, the investment firm must be subject to prudential supervision and capital adequacy rules of an equal standard with Cypriot standards and the Cyprus Securities and Exchange Commission must be in the opinion that the operation of the branch of investment firm concerned shall not put the investors' interests and the integrity of the market at risk.

The Supervisory Authority may demand that a legal and technical evaluation report, made by individuals approved by the Supervisory Authority, be submitted by the investment firm in question regarding the legal and the prudential supervision rules governing the Investment firm.

(3) The Cyprus Securities and Exchange Commission may, by Resolution, prescribe the conditions which the IFs of section (1) need fulfil in order to be allowed to set up a branch within the Republic and setting out the content of the evaluations provided for in section (2), so that the concurrence of all necessary legal conditions be determined.

(4) The requirements for the establishment, supervision and operation of IFs of this Article must not be more favorable than the respective applicable in the branches of IFs established in member states of the European Union.

(5) For the Cyprus Securities and Exchange Commission to grant an authorization pursuant to section (1), the investment firm must submit to it an application supported by such particulars as are necessary for the grant of a CIF authorization in accordance with Article 10, or, as the case may be, a credit institution authorization in accordance with Article 21 and banking legislation as well as whichever other feature the Supervising Authority deems necessary, the latter being entitled to prescribe and supplement, by Resolution, the exact particulars which must be submitted to it and the applicable procedure.

(6) The provisions on prudential rules and rules of business conduct governing IFs as well as the Cypriot legislation on the duties and the supervisions of the CIFs are equally applicable to the branches of the IFs concerned. In particular, the provisions of Articles 14, 15, 16, 32 to 37, and 39 to 42 as doe the provisions of this Act in general apply to IFs and, where applicable, to credit institutions.

The Supervising Authority may impose the same sanctions upon branches that it can impose upon IFs, pursuant to the preceding Articles.

7) The Cyprus Securities and Exchange Commission, by Resolution, may prescribe and supplement the rules, which the branches of IFs under this Article must observe, and the duties governing them in the course of their provision of investment and non-core services within the Republic.

(8) IFs under this Article must also participate, as to the clients of their branch in Cyprus, to the Investor Compensation Scheme of Article 31 or to another recognized investor compensation scheme approved by the Cyprus Securities and Exchange Commission which must provide its clients with an equal level of protection with the one provided by the Investor Compensation Scheme to the clients of its members.

(9) The branches of the above IFs are obliged to submit to the Cyprus Securities and Exchange Commission all the particulars which CIFs and credit institutions established within the Republic are obliged to submit in application of Articles 45-48 of this Act applied accordingly pursuant to Supervisory Authority Resolutions.

(10) The branches of the above IFs are subject to the supervision of the Cyprus Securities and Exchange Commission in the course of the exercise of their activities in the Republic.

The provisions of this Act in no way prejudice the provisions of the banking legislation for the establishment and supervision within the republic of a credit institution operating as an investment firm established in a third country.

Article 30

Cross-border provision of investment or non-core services in the Republic by IFs with a registered office in a state, which is not a member of the European Union

(1) An investment firm with a registered office in a third country must receive an authorization from the Cyprus Securities and Exchange Commission in order to provide cross-border investment services in the Republic without establishing a branch.

(2) For the Cyprus Securities and Exchange Commission to grant an authorization, the investment firm must be subject to rules on prudential supervision and capital adequacy of an equal standard with Cypriot standards and the Cyprus Securities and Exchange Commission must be of the opinion that the provision of cross-border services by the investment firm concerned in the Republic shall not put investors interests or the integrity of the market at risk.

The Supervising Authority may demand that a legal and technical evaluation report, made by individuals approved by the Supervising Authority, be submitted by the investment firm in question regarding the legal and the prudential supervision rules governing the Investment firm.

(3) The Cyprus Securities and Exchange Commission may, by Resolution, prescribe the conditions which the IFs of section (1) need fulfil in order to be allowed to set up a branch within the Republic and setting out the content of the evaluations provided for in section (2), so that the concurrence of all necessary legal conditions be determined.

(4) For the Cyprus Securities and Exchange Commission to grant an authorization pursuant to section (1), the investment firm must submit to it an application supported by

such particulars as are necessary for the grant of a CIF authorization in accordance with Article 10, or, as the case may be, a credit institution authorization in accordance with Article 21 and banking legislation as well as whichever other feature the Supervising Authority deems necessary, the latter being entitled to prescribe and supplement, by Resolution, the exact particulars which must be submitted to it and the applicable procedure.

(5) The provisions on prudential rules and rules of business conduct governing IFs as well as the Cypriot legislation on the duties and the supervision of the CIFs are equally applicable to branches of the IFs concerned.

In case of infringement of the provisions provided by law by an IF providing cross-border investment or non-core investment services in the Republic under this Article, the Cyprus Securities and Exchange Commission may impose upon them the same sanctions it can impose upon CIFs in the event of an infringement on their part of the relevant provisions in Part VII on prudential rules and VIII on rules of business conduct.

(6) IFs under this Article must also participate, in respect of the clients of their branch in the Republic to the Investor Compensation Fund of Article 31 or to any other recognized investor compensation scheme approved by the Cyprus Securities and Exchange Commission which must provide its clients with an equal level of protection with the one provided by the Investor Compensation Scheme to its members' clients.

Article 31 **List of regulated markets**

(1) The Cyprus Securities and Exchange Commission draws up a list of the regulated markets operating in the Republic where financial instruments and stock exchange titles are traded.

(2) The said list and any amendments thereto are to be forwarded, alongside the relevant rules on the procedures and operation of those regulated markets, to the competent authorities of the other member states and to the Commission.

PART VII **PRUDENTIAL RULES APPLICABLE TO IFS**

Article 32 **Rules on the organization, direction and business conduct of IFs established in the Republic**

(1) IFs established in the Republic must conform, throughout the course of their operation, to the provisions of the Articles of this Part.

(2) The Minister of Finance may, by Ministerial Circular published in the Official Gazette of the Republic, upon due consideration of the opinion of the competent Supervisory Authorities, define the specific qualifications and the special procedure for the approval of employees and executives of CIFs and credit institutions who shall be competent for

- a) the reception and transmission of orders for the performance of transactions on financial instruments,
- b) the execution of those orders,
- c) the provision of advice on investments in financial instruments,
- d) the management of the portfolios of investment firm clients, and

- e) the running of the following sections or departments of IFs:
- i) underwriting,
 - ii) provision of services consisting in the provision of advice on issuance,
 - iii) performance of own account transactions,
 - iv) portfolio management,
 - v) trade of financial instruments,
 - vi) internal control,
 - vii) any other sections or departments which shall be defined by Resolution of the competent Supervisory Authority

(3) Should the section (2) Circular be issued, in order for IF employees and executives to assume the above mentioned positions and duties, they shall possess the necessary qualifications defined in the said Notification and sit a yearly examination set by a five member examination board appointed by the Minister, the appointees being drawn from the Cyprus Securities and Exchange Commission (2) and the Central Bank (2), its President being, appointed by the Minister.

In order for persons employed by IFs at the time of the issuing of the said Circular to maintain their positions, such persons shall sit the section (2) exams within a period of time which shall be specified in the Ministerial Circular and which cannot be less than one year.

A special procedure may be determined by a Ministerial Circular, according to which-

- (a) Persons employed by IFs who hold the qualifications specified in subsection (3) and have six years full-time professional experience in the financial or banking field prior to the date of publishing the Circular in the Official Gazette of the Republic in accordance with section 32(2) and (6) of the Investment Firms Laws of 2002-2003, may assume the subsection (2) positions and duties,
- (b) persons employed by IFs who do not hold the qualifications specified in subsection (3) and have six years full-time professional experience in the financial or banking field prior to the date of publishing the Circular mentioned in paragraph (a), may assume the paragraph (a), (b) and (c) of subsection (2) and subparagraphs (ii) and (v) of paragraph (e) of subsection (2) positions and duties,
- (c) stock brokers and stock representatives of the Cyprus Stock Exchange, who are operating at the date of publishing the Circular mentioned in paragraph (a), may assume the paragraph (a) and (b) of subsection (2) and subparagraph (v) of paragraph (e) of subsection (2) positions and duties, without participating in the subsection (3) examination.

The members of the examination board must possess the requisite knowledge, experience, academic education and weight so that they might be in a position to organize unimpeachable examinations the purpose of which is to certify the existence of the special knowledge and experience which the aforementioned employees and executives of IFs must possess depending on their competence and duties.

(4) Each of the competent Supervisory Authorities shall organize training seminars for the persons employed in the IFs supervised by them.

(5) At least two months prior to the date of the examination, the examination board shall define the scope of the examination, the examination procedure, and any other specific issue.

(6) By Ministerial Circular, published in the Official Gazette of the Republic, upon due consideration of the opinion of the competent Supervisory Authorities, it is possible for matters pertaining to the organization and overall operation of the examination board of section (3) as well as for any other special matter pertaining thereto to be regulated.

(7) By Resolution of the Cyprus Securities and Exchange Commission it is possible for special qualifications and special certification procedures to be instituted for employees and members of BFRTOs in respect of

- (i) the reception and transmission of orders in relation to financial instruments
- (ii) the provision of investment advice
- (iii) internal audit

Article 33

Prohibition of the use for own account of investor capital and securities

(1) IFs, excluding credit institutions, shall not make use for own account of client-investor capital in their possession.

(2) IFs shall not make use for own account of the financial instruments of their clients-investors in their possession unless the latter consent thereto in writing and only in those cases and under those terms which the competent Supervisory Authority shall define by Resolution from time to time.

(3) The competent Supervisory Authority may, by Resolution, prescribe the duties of sections (1) and (2) and define specific rules applicable to IFs which are under their supervision, with a view to safeguarding the efficient protection of their clients' ownership rights, especially in the case that the investment firm should become insolvent.

Article 34

Segregation of investor capital from the investment firm's insolvent property

(1) In the event case of insolvency of an investment firm, the financial instruments and the funds belonging to the clients are segregated from the insolvent assets and handed over to their owners, subject to an eventual charge of the above mentioned with a pledge, in which case they are handed over to the pledgor.

In respect of funds belonging to the clients of a credit institution, the segregation is made providing the clients have not used those funds for own account.

(2) Before the segregation is made pursuant to section (1), the competent Supervisory Authority draws up a list of the financial instruments and funds of the investment firm's clients in its possession and forwards it to the beneficiary, the liquidator and anyone having a legal interest therein.

Article 35

Administrative and accounting procedures and mechanisms of internal control of IFs

(1) IFs must have, throughout the course of their operation, sound administrative and accounting procedures, control and safeguard arrangements for electronic data processing and adequate internal control mechanisms including, in particular, rules for the execution of transactions and performance of duties by employees and executives of the IFs as well as requirements and rules for the performance of transactions by the executives and employees of the investment firm for their own account directly or indirectly.

(2) IFs must dispose, throughout the course of their operation, of adequate mechanisms of control and administrative and accounting procedures for monitoring at all times their compliance with the provisions of Articles 48-52 and any regulatory acts issued thereunder.

(3) IFs must dispose of reliable and effective systems of administrative information so that they might be in a position to at all times to estimate, within a reasonable approximation, the financial situation of the institution and follow up and control the level of risk resulting from interest rate fluctuations on the aggregate of their activities.

The adequacy of the above systems is to be supervised by the competent Cypriot Supervisory Authorities, which may, by Resolution, institute special duties.

Article 36 **Recording of transactions and issuance of particulars**

(1) IFs must arrange for records to be kept of transactions executed in the framework of the provision of investment and non-core services on financial instruments, irrespective of whether those transactions were executed on or off exchange, and must issue the necessary particulars relevant to those transactions.

(2) The records and particulars of the previous section shall be retained for a period of five (5) years at least and must be submitted to the competent Supervisory Authority.

(3) The record keeping and issuance of particulars must be carried out in a way such that it enables the Cypriot Supervisory Authorities to monitor compliance with the prudential rules of supervision with which they must abide.

(4) IFs ought to keep the following accounts:

- a) an account for each client, in which the transactions executed for his account are registered,
- b) accounts containing debts towards third parties, one for each debtor
- c) commission account, agency account and fees in general
- d) transactions account for own account for each financial instrument
- e) account where the clients' debts are registered
- f) account for the amounts due to and from other IFs.

(5) The competent Supervisory Authority may issue Resolutions prescribing the section (1),(2),(3) and (4) duties of the IFs subject to their supervision.

(6) The competent Supervisory Authority may further issue Resolutions pursuant to section (5) on the rules applicable for the keeping of records in respect of orders which IFs receive and the transactions they execute as well as of the content of the records they keep and the particulars they issue in relation to the investment and non-core services they provide.

(7) The records kept and the particulars issued by the members of the CSE in relation to the stock exchange transactions executed on the CSE are defined by joint Resolution of the Cyprus Securities and Exchange Commission and the Board of the CSE, in a way to safeguard the integrity of the system of conclusion and clearance of transactions of the CSE and the fulfillment of the duties of its members in relation to the duties undertaken in the framework of the stock exchange transactions performed.

The Cyprus Securities and Exchange Commission may issue the relevant Resolution even without the prior opinion of the Board of the CSE upon expiry of the reasonable time frame set in writing by the Cyprus Securities and Exchange Commission to the CSE Board and which may not be of less than one calendar month.

Article 37
Prevention of conflict of interests

(1) IFs must be structured and organized in such a way as to minimize the risk of clients' interests being prejudiced by conflicts of interest between the firm and its clients or in between any of its clients.

(2) The competent Supervisory Authority may issue Resolutions prescribing the section (1) duties of IFs subject to their supervision.

(3) In the event that an investment firm incorporated in The Republic should create a branch outside the Republic, the organization of the investment firm should be in conformity with the rules of professional conduct imposed by the host member state and must not run counter to the rules of conduct laid down by the host member state for the avoidance of conflicts of interests.

Article 38
Capital adequacy

(1) The capital adequacy requirements as defined under Articles 48 to 52 as well as the requirements for the granting of an authorization to an investment firm must be fulfilled throughout the course of the operation of the investment firm.

(2) The competent Supervisory Authority monitors compliance with section (1) and may, in the event that any investment firm should infringe it, upon evaluation of the gravity of the infringement, instead of revoking the investment firm authorization, suspend its operation, in whole or in part, in relation to specific investment or non-core services setting a reasonable time frame not exceeding three months from notification of the suspension of the authorization for its compliance to the provisions of this Act.

For the duration of the suspension the investment firm may not provide the investment and non-core services in respect of which the authorization has been suspended.

PART VIII
BUSINESS CONDUCT RULES FOR IFs ACTIVE IN THE REPUBLIC

Article 39
Advertisements

(1) IFs may advertise, through all available means of communication, the investment and non-core services they provide, subject to the provisions of the Control of Misleading and Comparative Advertisement Act 2000 as well as to any relevant legislation.

(2) IFs shall send copies of their documentary, audio-visual and Internet advertisements to the competent Supervisory Authority within 2 days at the latest following upon their publication or inclusion on the Internet respectively.

The competent Supervisory Authority may demand rectification of any advertisement which, it considers, runs counter to securities legislation and, in particular, if there is a risk that investors might thereby be misled.

Article 40 Rules of Business Conduct for IFs

In the course of the provision of investment and non-core services, IFs shall:

- a) take all necessary measures and act in good faith in the exercise of their business activities, in accordance with good business practices, so as to promote the best interests of their clients and to uphold the regular operation of the market;
- b) act with due skill, care and professional diligence, so as to promote the best interests of their clients and to uphold the regular operation of the market;
- c) dispose of and employ effectively the resources and procedures necessary for the proper performance of their business activities, particularly in relation to issues of internal organization and client service;
- d) seek from their clients appropriate information regarding their financial situation, their investment experience and their business objectives with regard to their investments, in order to be in a position to provide their services accordingly, regard being had to the investment experience of the recipients in particular in the light of an eventual professional activity of theirs in the field of investments in financial instruments;
- e) make adequate disclosure to their clients of relevant material information in their dealings with them, especially in respect of information relating to the organization and operation of the investment firm, the way in which their services are provided and any eventual conflict of interests which may occur in the course of the provision of such services;
- f) use their best efforts to avoid conflicts of interest in between themselves and their clients and, where that is impossible, to objectively resolve any conflicts of interests, including conflicts in between their clients, in accordance with good business practices and the principle of equal treatment of their clients;
- g) comply with all regulatory requirements applicable to the rules of conduct governing the exercise of their business activities so as to promote the best interests of their clients and to uphold the regular operation of the market.

Article 41 Business Conduct Code for IFs

(1) A Code of Conduct for IFs and for the natural persons employed therein shall be issued by a common Regulation of the competent authorities, issued in the Official Gazette of the Republic, a copy of which together with any subsequent amendments shall be notified to the Standing Parliamentary Committee on Financial and Budgetary Affairs for their information.

The business conduct rules of Regulation 19 (on Securities and the Cypriot Stock Exchange) currently in force shall cease to apply as of the entry into force of the Business Conduct Code.

(2) The Business Conduct Code shall prescribe the rules set out in Article 40 and set further rules regulating the business conduct of IFs and their personnel in the course of the provision of investment and non-core services, with a view to safeguard the regular operation of the market and protect the interests of investors.

(3) Business conduct rules may differ in between those applicable to credit institutions, on the one hand, and to the remainder of IFs, on the other, depending on the services they provide, their organization and supervision, the kind of investment or non-core services they provide and their recipient.

(4) IFs shall make good any damage incurred by investors as a result of the intentional infringement of such duties of theirs as result from the business conduct rules.

Article 42
Infringement of business conduct rules

In the event that an IF or a natural person employed thereby should infringe the provisions of Articles 40 and 41 as well as the Business Conduct Code, they shall be punishable pursuant to the provisions of indent (i) of section (4) of Article 64.

PART IX
SUPERVISION OF IFs

Article 43
Exercise of Supervision over IFs

(1) The provisions of the Cyprus Securities and Exchange Commission (Constitution and Terms of Reference) Act 2001, on the supervisory function of the Cyprus Securities and Exchange Commission, its power to carry out controls, to impose sanctions and on its terms of reference in general as provided for in the aforementioned Act, shall apply by way of supplement to the provisions of this Act without prejudice thereto with regard to supervision by the Cyprus Securities and Exchange Commission of CIFs and their representatives, excluding credit institutions and their representatives, with regard to all natural persons and legal entities in respect of whom provision is made in cases of infringement of this Act or of any Regulations and Directives adopted on the powers conferred hereunder, as well as with regard to the supplementary supervision by the Cyprus Securities and Exchange Commission of financial conglomerates.

(2) The banking legislation provisions dealing with the supervision and audit of credit institutions by the Central Bank, as well as with its power to hold inquiries and impose sanctions thereto, and in general with its terms of reference pursuant to the legislation each time in force shall apply by way of supplement to the provisions of this Act without prejudice thereto with regard to the supervision of credit institutions and their representatives by the Central Bank when the former provide investment services and non-core services.

Article 44
Professional secrecy

The provisions of the Cyprus Securities and Exchange Commission (Constitution and Terms of Reference) Act 2001 and of the banking legislation in general dealing with the suspension of bank secrecy vis-a-vis the Cyprus Securities and Exchange Commission and the Central Bank as well as with the confidentiality and professional secrecy duties of the Cyprus Securities and Exchange Commission and the Central Bank shall also apply *mutatis mutandis* with regard to the exercise of supervision by the Supervisory Authorities pursuant to this Act.

Article 45
Collaboration between the Cyprus Securities and Exchange Commission and the Central Bank

(1) The Cyprus Securities and Exchange Commission and the Central Bank shall cooperate for the uniform and effective exercise of supervision over IFs and shall mutually provide all necessary assistance for the discharge of their duties pursuant to the provisions of this Act.

(2) To further elaborate on such collaboration, a Protocol of Cooperation shall be concluded within three (3) months as of the entry into force of this Act.

Article 46
Collaboration of the Supervisory Authorities with the supervisory authorities of European Union member states

(1) The competent Supervisory Authorities shall collaborate with the supervisory authorities of the member states of the European Union in supervising the activities of IFs incorporated in The Republic and operating in any one or more member states of the European Union, as well as in supervising IFs incorporated in a member state of the European Union and providing investment or non-core services with or without a branch in the Republic.

(2) The collaboration of section (1) shall include, *inter alia*,

(a) the exchange, upon written request, of all information which:

(i) concerns the operation and the capital and asset structure of IFs and

(ii) may facilitate the exercise of supervision and monitoring of such firms and, in particular, the monitoring of their compliance with the provisions governing the cover of risks and compliance with the capital requirements, and

b) the collection of all information necessary for the monitoring of compliance by IFs with the provisions of this Act.

(3) The competent Supervisory Authority shall inform, whenever necessary, the competent supervisory authorities of the home member state of any sanctions and in general any measures imposed on IFs incorporated in such member state and operating in the Republic. Moreover, they shall regularly forward to the Council and the Commission of the European Union information concerning the methods used for the assessment of the approved particulars as defined by Directives issued by the Supervisory Authorities, in particular for the assessment of the liquidity of financial instruments and the solvency of the issuer.

(4) The supervisory authorities of the IF's home member state, where such IF operates in the Republic through a branch may, upon prior notification of the competent Supervisory Authority, themselves or through the medium of any authorised persons properly instructed for that purpose, carry out on-the-spot controls of the operation and the capital and asset structure of the IF, as well as of the methods used by such IF firm for the assessment of the approved particulars.

(5) The competent Supervisory Authority may also request from the home member state supervisory authorities that they have such on –the-spot controls carried out:

Provided that, the competent supervisory authority, which has submitted the request may, provided it so wishes, participate in the aforementioned control, when not conducting it itself.

(6) In this context of section (5), the competent Supervisory Authority shall request that the competent authorities of the home member state to either themselves carry out the verification or to authorize the competent Supervisory Authority to carry out such verification, either itself or through the medium of authorised persons, properly instructed for that purpose;

Nothing in this Article shall prejudice the right of the competent supervisory authority to carry out on-the-spot controls of IF branches in the Republic of IFs incorporated in any member state or of the activities of IFs operating under the free provision of services regime in the Republic, within the framework of the powers granted thereto pursuant to the provisions in force.

(7) The Cyprus Securities and Exchange Commission may, upon prior notification of the home member state supervisory authorities, itself or through the medium of authorised persons properly instructed for that purpose, carry out on-the-spot controls of CIFs operating through a branch in another member states or operating under the free to provision of services regime, for the purpose of collecting and assessing the section (1) particulars.

Article 47

CIF duties vis-a-vis the Cypriot Supervisory Authorities

(1) The competent Supervisory Authorities may request that the IFs supervised by them submit any particular and provide any information deemed necessary for the carrying out of the control of their regular operation.

(2) Failure on the part of an IF to submit to the competent Supervisory Authority, within a reasonable period of time duly designated, the particulars and information requested from it shall amount to an administrative offence punishable pursuant to indent (j) of section (4) of Article 64.

PART X

CAPITAL ADEQUACY OF IFs AND CREDIT INSTITUTIONS

Article 48

Risk covers, duty to comply with capital requirements

(1) IFs and credit institutions shall dispose on a daily basis of own funds apt to cumulatively cover the following capital requirements:

(a) capital requirements designed to cover position risk and the settlement and counterparty risk, as these shall be defined by Supervisory Authority Resolutions on the basis of their respective trading book business;

(b) capital requirements designed for large exposures, in accordance with Article 49 of this Act, on the basis of their respective trading book business;

(c) capital requirements designed to cover the short foreign exchange position risk, as such risk shall be defined by Supervisory Authority Resolutions, on the basis of their business activities in their entirety;

(d) capital requirements defined by Supervisory Authority Resolutions concerning the solvency ratio of IFs and credit institutions, on the basis of their business activities in their entirety, excluding trading book business and non-realizable (fixed) assets thereof on condition that, in valuating own funds, such items shall be deducted in accordance with the alternative definition of own funds by the competent Supervisory Authorities, as defined in the above Resolutions;

(e) capital requirements corresponding to transactions neither falling within the scope of this Act, nor within that of the Resolutions issued by the competent Supervisory Authorities, in respect of the solvency ratio of IFs and credit institutions, albeit involving similar risks to those covered by this Act and the said Supervisory Authority Resolutions.

(2) Irrespective of the amount of the capital requirements referred to in indents (a) to (e) of section 1, the own funds requirements for CIFs can never be less than one quarter (25%) of the preceding year's fixed overheads, as these may be defined by Cyprus Securities and Exchange Commission Resolutions.

(3) The section (2) requirement may be adjusted pursuant to a Resolution issued by the Cyprus Securities and Exchange Commission, in the event of a material change in a CIF's business since the preceding year.

(4) Where a CIF has not yet exercised its business activities for a full business year, the own fund requirements can never be less than one quarter (25%) of the fixed overheads figure, as these may be defined by Cyprus Securities and Exchange Commission Resolutions, projected in its business plan unless an adjustment to that plan has been requested by the Cyprus Securities and Exchange Commission.

(5) If the own funds of an IF or a credit institution fall below the cumulative amount of the own funds requirements determined in section (1) of this Article, the competent Supervisory Authority shall ensure, through service of a clear warning to the supervised entity in question, that the said entity takes all necessary steps to rectify this situation as soon as possible.

(6) The principles and methods of determination and valuation of own funds for supervised entities, as well as of their solvency ratio, and any specific issue and necessary detail in connection with own funds and solvency ratios shall be laid down by competent Supervisory Authority Resolutions.

(7) IFs and credit institutions shall submit to the competent Supervisory authority a report with all the necessary particulars and information designated by Resolution of the competent Supervisory Authority, so as to facilitate the latter in its assessment of their compliance with the provisions of Articles 48-52 of this Act, and in particular with indents (1) to (6) of this Article as well as with the Resolutions issued in accordance therewith.

(8) The Resolutions referred to in section 7 shall also make provision for the content of the reports to be submitted, as well as the frequency of their submission and other particulars, and any other specific issue or detail.

(9) IFs and credit institutions shall mark to market their trading book on a daily basis, in accordance with competent Supervisory Authority Resolutions, unless they fall within the exceptions stipulated in competent Supervisory Authority Resolutions.

(10) In the absence of readily available market prices, as in the case of dealing in new issues on the primary markets, the competent Supervisory Authority may, by Resolutions, waive the requirements imposed in this Article, requiring that IFs and credit institutions make use of alternative methods of valuation, provided that such methods have been approved by the Supervisory Authority.

(11) IFs and credit institutions shall immediately report to the competent Supervisory Authority any case in which their counter-parties in repurchase and reverse repurchase

agreements and securities-lending or securities-borrowing transactions default on their obligations from the transactions in question.

(12) The meaning of “trading book” shall be defined for the purposes of this Act by Resolution of the competent Supervisory Authority.

(13) Infringement by an IF or a credit institution of any of the provisions of this Act or of any Resolutions issued on the powers conferred hereunder, shall amount to an administrative offence punishable pursuant to indent (j) of section (4) of Article 64.

Article 49 **Monitoring and control of large exposures**

(1) Issues relating to the monitoring and control of large exposures of supervised entities shall be dealt with by Resolutions issued by the competent Supervisory Authority.

(2) Infringement by an IF or a credit institution of any of the Resolutions issued on the powers conferred hereunder shall amount to an administrative offence punishable pursuant to indent (j) of section (4) of Article 64.

Article 50 **General principles on consolidated supervision**

(1) The Article 48 and 49 capital requirements for the cover of risks and large exposures shall be evaluated:

(a) on an individual basis for IFs and credit institutions which are neither parent undertakings nor subsidiaries thereof; and

(b) on a consolidated basis:

(i) for IFs and credit institutions which have a credit institution, an investment firm or other financial institution as their subsidiaries or which hold a share therein; and

(ii) for IFs and credit institutions the parent undertaking of which are financial holding companies.

Provided that, for institutions belonging to a group and which do not fall within the provisions of subsections (i) and (ii), the Cyprus Securities and Exchange Commission may, where the parent or subsidiaries of CIFs are not supervised by the Central Bank of Cyprus, demand, that their capital requirements for the cover of risks and large exposures, as these are imposed subject to sections 48 and 49, are calculated on a consolidated basis.

Further provided, institutions and their parent undertakings, to the extent that they constitute a unified undertaking, shall submit unified financial reports concerning the performance of such duties of theirs as flow from this section.

(2) The competent Supervisory Authority may, by Resolutions, determine the conditions under which a group of companies falling within indent (b) of section (1), excluding credit institutions, shall be subject to supervision on the basis of its consolidated financial condition, the circumstances under which the Cyprus Securities and Exchange Commission may exempt an investment firm from consolidation and the duties of exempted IFs, as well as any relevant issue and detail.

(3) Infringement by an IF or a credit institution of any of the provisions of this Article or of any Resolutions issued on the powers conferred hereunder, shall amount to an administrative offence punishable pursuant to indent (j) of section (4) of Article 64.

(4) Infringement by an IF or a credit institution's parent undertaking of any of the provisions of this Act or of any Resolutions issued on the powers conferred hereunder, shall amount to an administrative offence punishable pursuant to indent (j) of section (4) of Article 64.

Article 51

Institutions with a parent undertaking in a member-state

(1) In case of a IF or of a credit institution which is the subsidiary of a parent undertaking incorporated in a European Union member state, the competent Supervisory Authority shall apply the rules stipulated in Articles 48 and 49 either on an individual or on a consolidated basis, irrespective of the subjection or not, by the competent Supervisory Authority, of the parent undertaking to consolidated supervision.

(2) Notwithstanding the provisions of section (1), the Supervisory Authority competent for authorizing the subsidiary of a parent undertaking supervised by the competent authorities of a member state of the European Union, may, by Resolution or by bilateral agreement concluded with the latter supervisory authority, delegate their supervisory powers thereto.

The European Commission must be kept informed by the competent Supervisory Authorities of the existence and content of any such bilateral agreement.

Article 52

Evaluation of consolidated requirements and definition of consolidated own funds

(1) The competent Supervisory Authority determines

(a) the method of evaluation of the consolidated own funds of the supervised IFs and credit institutions;

(b) the conditions under which IFs and credit institutions may offset net positions in their trading books against those of any other IF or credit institution;

(c) the conditions under which IFs and credit institutions may offset foreign exchange positions in their trading books against those of any other IF or credit institution.

(2) By Resolution, the competent Supervisory Authority may allow IFs and credit institutions supervised by them to offset foreign exchange positions, as well as foreign exchange positions in the trading books of undertakings located in third countries, providing:

(a) such undertakings have been granted authorization in a third country, which is not a European Union member state, and either fulfil the definition of a credit institution or are recognized third country IFs,

(b) such undertakings comply, on an individual basis, with capital adequacy rules equivalent to those laid down in this Act,

(c) no regulations exist in the countries in question, which might significantly affect the transfer of funds within the group.

(3) The competent Supervisory Authority may allow the offsetting provided for in section (2) in between IFs and credit institutions within the same group that have been granted authorization in the Republic, provided that:

(a) there is a satisfactory allocation of capital within the group

(b) the regulatory, legal, or contractual framework in which the IFs and credit institutions operate is such as to guarantee mutual financial support within the group.

(4) The competent Supervisory Authority may allow the offsetting provided for in section (2) in between IFs and credit institutions within the same group that fulfil the conditions of section (3) and any IF or credit institution of the same group which has been granted authorization in a European Union member state provided that such IF or credit institution has the duty to fulfil the capital requirements of Articles 48 and 49 on an individual basis.

(5) In addition to the issues in indents (1) to (4), the competent Supervisory Authority may, by Directives, determine any other issue relating to the evaluation of the consolidated requirements and the definition of the consolidated own funds of institutions, as well as the supplementary supervision of credit institutions, insurance undertakings and Ifs of a financial conglomerates,.

(6) Infringement by an IF or a credit institution of any of the provisions of this Article or of any Resolutions issued on the powers conferred hereunder, shall amount to an administrative offence punishable pursuant to indent (j) of section (4) of Article 64.

PART XI INVESTOR COMPENSATION FUND

Article 53

Establishment and operation of the Investor Compensation Fund. Regulations

(1) Two Investor Compensation Funds are hereby established, the Investor Compensation Fund for clients of Credit Institutions (ICF for clients of credit institutions) and the Investor Compensation Fund for clients of CIFs and IFs (ICF for clients of CIFs) as private law legal entities, the terms of reference and operation of which shall be governed by the provisions of this Part.

(2) The ICF for clients of credit institutions and the ICF for clients of IFs shall commence their operation within one month from the issuing of the Regulations necessary for their operation adopted pursuant to the powers conferred hereunder. Provided that the Central Bank of Cyprus, for the ICF for clients of credit institutions and the Cyprus Securities and Exchange Commission, for the ICF for clients of IFs, shall take any necessary measures for the commencement of the operation of the respective ICF.

(3) Regulations issued pursuant to the powers conferred hereunder shall govern the form, management, organization and overall operation of the ICF and in particular,

(a) The conditions and procedure to be followed by IFs in order to become members of the ICF as well as any special terms applicable to IFs not established within the Republic and providing investment services therein either through a branch or on a cross-border basis;

(b) The levying of contributions to be made by each participating investment firm, the computation of such contribution, the mode of its payment, as well as the procedure for levying supplementary contributions;

(c) The proceeds, administrative structure, supervision and control mechanisms of the ICF, including the creation of a body empowered to act for this purpose, the duration of the fiscal year, as well as the accounts held by the ICF;

- (d) The procedure and expiration date for the submission by investors of compensation claims, the contents of the relevant claims, the monitoring procedure and criteria for such claims as well as the period of time within which the ICF is required to compensate investors and which shall not exceed three months as of the date on which the claim has been established as valid and the compensation amount has been determined;
- (e) The assessment of the value of the financial instruments which the IF is unable to return to the investor, in order to determine the level of the amount of compensation payable thereto, which assessment shall be carried out, to the extent possible, by reference to their purchase (or market) value;
- (f) Any clients of the IF which shall not be covered by the ICF, such as institutional investors and professional investors, supranational entities, states and central administrative authorities, as well as peripheral and rural authorities, administrative officers and directors of the IF and persons closely linked thereto, within the meaning of Annex Five and undertakings connected to any IF which has become insolvent;
- (g) Issues relating to the transfer to the ICF for clients of IFs of individual units of members of the Joint Compensation Fund Securing Stock Exchange Transactions, which become members of the said ICF, as part of the contribution of each member, the obligation for members of the Joint Compensation Fund Securing Stock Exchange Transactions to make supplementary contributions to cover the amount of their units in the ICF for clients of IFs, details of the obligations of the ICF as to the obligations undertaken from the Joint Compensation Fund Securing Stock Exchange Transactions, and any measure which may be taken by the said ICF against its members, whose clients it compensates.
- (h) The withdrawal of a member from the ICF.
- (i) Any other specific issue relating to the establishment and operation of the ICF, as well as to its relationship with its members, including the elaboration of the notions in the preceding indents.

Provided that the time period within which an indent (d) application may be submitted may not be less than five months as from the date of issuing of a resolution or a ruling by the competent Supervisory Authority or the competent judicial authority respectively, as specified in subsection (1) of Article 55. No investor shall be excluded on the grounds that he has not met the above mentioned deadline because of his inability to promptly claim compensation as determined in the Regulations issued pursuant to the powers conferred hereunder, without excluding however the setting of a maximum time-frame within which to apply, as provided in the Regulations issued pursuant to the powers conferred hereunder.

- (4) The ICF shall be entitled to insure itself in respect of its duties hereunder, the insurance monies thus paid being deemed as ICF management expenses.
- (5) The Regulations issued pursuant to subsection (3), as for the ICF for clients of credit institutions, are issued by the Central Bank of Cyprus, with the approval of the Council of Ministers, and as for ICF for clients of IFs, the Regulations are issued by the Cyprus Securities and Exchange Commission with the approval of the Council of Ministers.

(6) The assets of the ICF and the individual units of its members cannot be confiscated, until these become free to be reimbursed to its members by virtue of the Regulations issued pursuant to subsection (3).

(7) The Regulations issued pursuant to subsection (3) may provide inter alia, that the ICF does not compensate, or provides reduced compensation, in relation to what is provided in subsection (1) of article 56, to the clients of its members, when the members of the ICF provide services to clients-

(a) either through branches, established in third countries;

(b) or on a cross-border basis to third countries,

regulating any specific issue and necessary detail in relation to the said issue.

(8) The Central Bank of Cyprus provides to the ICF for clients of credit institutions, and the Cyprus Securities and Exchange Commission to the ICF for clients of IFs, any information they possess, which may, at the regulating body's discretion, help the relevant ICF in the exercise of its tasks.

(9) The Central Bank of Cyprus does not disclose any information pursuant to this article which refers exclusively to any particular deposit account, unless expressly provided in any statute.

Article 54

Members of the ICF

CIFs and credit institutions incorporated in the Republic shall subscribe to the Investor Compensation Fund and shall not operate as IFs unless they have subscribed thereto.

Provided that IFs which albeit not established within the Republic operate a branch within its territory or provide investment or non-core services therein shall be entitled to subscribe to the ICF in accordance with the procedure provided for in the Regulations issued pursuant to subsection (3) of Article 53.

Article 55

Conditions for investor compensation

(1) Subject to the provisions of subsection (2), the ICF shall compensate investors especially when -

(a) the competent Supervisory Authority has determined by Resolution that an IF, which has subscribed to the ICF, is unable to meet such of its duties as arise from its clients' claims in connection with the investment services or the non-core service of paragraph 1 of Part III of Annex One it has provided, as long as such inability is directly related to its financial circumstances in respect of which no realistic prospect of improvement in the near future seems foreseeable, or

(b) a judicial authority has, on reasonable grounds directly related to the financial circumstances of an IF which has subscribed to the ICF, issued a ruling which has the effect of suspending the investors ability to lodge claims against it.

(2) The ICF shall pay no compensation in respect of claims arising out of transactions involving individuals convicted of a criminal offence pursuant to the Prevention and Suppression of Money Laundering Activities Law of 1996 to 2000.

(3) Subject to the provisions of subsection (7) of article 53, the relevant ICF shall compensate all investor-clients of any of its members established in the Republic in respect of claims arising out of the investment services they provide as well as the non-

core service of paragraph 1 of Part III of Annex One, including the clients of branches of ICF members established in Member-States.

(4) The ICF shall also compensate investors to whom investment or the non-core service of paragraph 1 of Part III of Annex One have been provided, either through a branch of an IF which, albeit not established within the territory of the Republic, has a place of business therein and has subscribed to the ICF or through an IF which, albeit having no place of business in the Republic, nevertheless provides the said services therein on a cross-border basis, pursuant to the conditions of subsection (1), properly applied, the Regulations issued on the powers conferred pursuant to subsection (3) of Article 53 and to any special subscription conditions thereof to the ICF.

Article 56

Level of compensation

(1) Subject to the provisions of subsection (7) of article 53, the compensation provided to investor-clients of members of the ICFs, shall be of an amount of up to twenty thousand Euro (20. 000). Such compensation shall apply to the investor's aggregate claims as against a member of an ICF, irrespective of the number of accounts held, the currency and location of the provision of service.

(2) In the context of a joint investment operation, each investor's share therein shall be taken into account for the computation of the cover provided for hereunder.

Provided that for the purposes of this section, "joint investment operation" shall mean the investment service or non-core service of paragraph 1 of Part III of Annex One which is provided for the account of two or more beneficiaries and which may be exercised on the consent of any one or more of the beneficiaries in question.

(3) The computation of the amount of an investor's claim shall be assessed in accordance with the set-off and counterclaim rules in force such as the latter shall be specified by Regulations issued pursuant to the powers conferred by subsection (3) of Article 53, which apply for the assessment, on the date of issuing of the determination or ruling made by the competent Supervisory Authority or the judicial authority of subsection (1) of Article 55, of the amount of money or of the value of the financial instruments belonging to the investor client which the IF has been unable to repay or to return.

Article 57

Duty of IFs to inform their clients of the cover provided by the ICF

Each IF shall bring to their clients-investors' attention, prior to the conclusion of any transaction with them, the ICF to which they will have subscribed, the operator thereof, the cover provided thereunder with regard to the investment and non-core service of paragraph 1 of Part III of Annex One provided by the IF, the amount of the compensation to which they are entitled, or any other equivalent manner of protection granted to investors.

Article 58

Dissolution of the Mutual Guarantee Fund for Transactions in Securities

(1) Upon commencement of the operation of the ICF for clients of IFs, the Joint Compensation Fund Securing Stock Exchange Transactions will operate solely for securing the compensation of investor-clients of members of the Joint Compensation Fund which will not become members of the ICF for clients of IFs, or the ICF for clients of credit institutions, and the provisions of Part IX of the Cyprus Securities and Stock Exchange Laws of 1993 to 2003 as well as the Cyprus Securities and Stock Exchange Regulations of 1995 to 2003 shall be valid only for serving this purpose..

(2) The obligations of the Joint Compensation Fund Securing Stock Exchange Transactions, provided in Regulations issued pursuant to article 53, in relation to its members who will become members of the ICF for clients of IFs, will be undertaken by the said IFC.

(3) IFs which are members of the CSE and which shall be granted CIF authorizations remain covered by the Mutual Guarantee Fund in accordance with the provisions of the Securities and Cyprus Stock Exchange Laws of 1993 to 2002 and the Cyprus Stock Exchange and Securities Regulations of 1995 to 2002, until the Mutual Guarantee Fund has ceased to exist,

PART XII BROKERAGE FIRMS FOR THE RECEPTION AND TRANSMISSION OF ORDERS (BFRTOs)

Article 59 Object of BFRTOs

(1) The exclusive object of a BFRTO shall be the reception and transmission of orders in relation to transferable securities and shares, which orders may only be transmitted:

(a) to IFs

(b) to IFs authorized to operate and actually operating in a third country where they are subject to and comply with prudential supervision rules considered as at least equivalent to those applied in Cyprus for the prudential supervision of IFs or credit institutions, as specified by Cyprus Securities and Exchange Commission Resolution.

(c) to undertakings for collective investment in transferable securities within the meaning of the Open end Collective Investment Undertakings and Related Matters Act 2001,

(d) to collective investment undertakings registered in any European Union member-state and operating in accordance with rules at least equivalent to those in the Open end Collective Investment Undertakings and Related Matters Act 2001.

(2) Upon Cyprus Securities and Exchange Commission authorization, BFRTOs may include in their object the non-core service of provision of investment advice, or any other activity providing that it does not obstruct the regular conduct of their business or their clients' interests.

(3) The section (2) authorization shall granted by the Cyprus Securities and Exchange Commission providing the BFRTO disposes of the requisite infrastructure, organizational structure and personnel for the conduct of its business. In its assessment of the BFRTO's suitability, the Cyprus Securities and Exchange Commission shall apply by way of analogy the provisions set out in this Act for the grant of a CIF authorization.

(4) The Cyprus Securities and Exchange Commission may, by Resolution, determine the conditions which BFRTOs wishing to provide investment advice shall meet, as well as the application process which they need to observe for the purpose of submitting the relevant application to the Cyprus Securities and Exchange Commission.

(5) The Cyprus Securities and Exchange Commission may, by Resolution, determine the organizational and operational rules applicable to BFRTOs as well as the special duties which BFRTOs shall observe in the course of their cooperation with IFs for the purpose of safeguarding the regular operation of the capital market, the legitimate operation of firms, including observation of the provisions of this Act, and investor interests, as well as any issue concerning the cooperation in between IFs and BFRTOs.

(6) A draft of the Articles of incorporation of a BFRTO shall be submitted to the Cyprus Securities and Exchange Commission at least one month prior to its incorporation.

(7) Brokerage Firms may not hold clients' funds and financial instruments belonging to their clients.

Article 60

Capital requirements, monitoring and notification of BFRTO particulars

(1) The minimum initial share capital of BFRTOs shall be no less than forty thousand Cypriot Pounds (40,000 CPs).

(2) BFRTOs' own funds may not fall below the section (1) amount and, in the event that they should so do, BFRTOs shall draw the necessary funds to reach the requisite amount through share capital increase within a period which may not exceed six months.

(3) The audit set out in the relevant provisions of the Companies Act shall be performed, in the context of BFRTOs, by an independent chartered accountant.

(4) BFRTOs shall notify to the Cyprus Securities and Exchange Commission such of their particulars as shall be determined by Cyprus Securities and Exchange Commission Resolutions.

Article 61

BFRTOs' internal control mechanisms and Business Conduct Code

(1) BFRTOs shall dispose of appropriate internal control mechanisms capable of ensuring their due operation as well as protection of their clients' interests.

(2) Brokerage Firms shall observe the provisions set out in this Act concerning the CIF Business Conduct Code, which applies *mutatis mutandis* to BFRTOs.

(3) The Cyprus Securities and Exchange Commission may, by Resolution, establish a Business Conduct Code for BFRTOs, setting out specific business conduct requirements for Brokerage Firms and their personnel and setting out their duties in respect of their internal control mechanisms, their book-keeping obligations and the data which they need to produce in the context of the provision of their investment services to their clients.

(4) BFRTOs shall be liable for any damage incurred by investors due to intentional breach of such of their duties as derive from Business Conduct Rules.

Article 62 Supervision of BFRTOs

(1) The Cyprus Securities and Exchange Commission shall monitor BFRTOs' compliance with the provisions of this Act. In this respect, supervision may be exercised by the Cyprus Securities and Exchange Commission itself or by auditors appointed by the Cyprus Securities and Exchange Commission.

(2) BFRTOs shall put at the Cyprus Securities and Exchange Commission's disposal their books and data, as well as such other document as may be considered necessary for the conduct of its supervisory functions, pursuant to this Act and to any Regulations issued on the powers conferred hereunder.

(3) BFRTOs, which infringe any of the duties set out in this Part, shall be in administrative breach thereof, hence punishable pursuant to the provisions of indent (1) of section (4) of Article 64.

PART XIII CRIMINAL, CIVIL LAW AND ADMINISTRATIVE SANCTIONS

Article 63 Criminal Offences

(1) Whoever commits an offence, pursuant to the provisions of section (3) of Article 4 shall be punishable, upon conviction, by a prison sentence not exceeding two years or by a fine, not exceeding one hundred thousand Cypriot Pounds (100.000 CP) or both and in the event that he should re-offend, by a prison sentence not exceeding four years or by a fine, not exceeding two hundred thousand Cypriot Pounds (200.000 CP) or both.

(2) Whoever commits an offence, pursuant to the provisions of section (6) of Article 4, shall be punishable, upon conviction, by a prison sentence not exceeding one year or by a fine, not exceeding ten thousand Cypriot Pounds (10.000 CP) or both and in the event that he should re-offend, by a prison sentence not exceeding two years or by a fine, not exceeding fifty thousand Cypriot Pounds (50.000 CP) or both.

Article 64 Administrative sanctions and procedure

(1) The competent Supervisory Authority shall be competent for the exercise of administrative supervision and the imposition of administrative sanctions pursuant to this Act.

(2) A lawyer, appointed by the competent Supervisory Authority upon a relevant suggestion of the Attorney General of the Republic, in order to advise on legal issues, may attend the deliberations of the competent Supervisory Authority ahead of the imposition of the administrative sanctions of section (1).

(3) The competent Supervisory Authority shall deal with administrative breaches either *ex officio* or upon submission thereto of any relevant denunciation.

(4) Irrespective of any criminal liability, regard being had to the benefit derived from the breach, the competent Supervisory Authority shall impose the following sanctions upon whoever infringes the provisions of this Act or any competent Supervisory Authority Regulations or Directives issued on the powers conferred hereunder:

(a) in the context of section (4) of Article 4-

(i) an administrative fine not exceeding three hundred thousand Cypriot Pounds (300,000 CP);

(ii) in case of relapse, the competent Supervisory Authority may impose a fine not exceeding six hundred thousand Cypriot Pounds (600,000 CP);

(b) in the context of section (7) of Article 4-

(i) an administrative fine not exceeding seventy five thousand Cypriot Pounds (75,000 CP);

(ii) in case of relapse, the competent Supervisory Authority may impose a fine not exceeding one hundred and fifty thousand Cypriot Pounds (150,000 CP);

(c) in the context of section (3) of Article 5-

(i) an administrative fine not exceeding fifteen thousand Cypriot Pounds (15,000 CP);

(ii) in case of relapse, the competent Supervisory Authority may impose a fine not exceeding forty five thousand Cypriot Pounds (45,000 CP);

(d) in the context of section (7) of Article 8, an administrative fine not exceeding seventy five thousand Cypriot Pounds (75,000 CP);

(e) in the context of section (8) of Article 8, an administrative fine not exceeding fifteen thousand Cypriot Pounds (15,000 CP);

(f) in the context of section (9) of Article 8, an administrative fine not exceeding fifteen thousand Cypriot Pounds (15,000 CP);

(g) in the context of section (12) of Article 8, an administrative fine not exceeding seventy five thousand Cypriot Pounds (75,000 CP);

(h) in the context of section (9) of Article 19 and of section (7) of Article 22-

(i) an administrative fine not exceeding thirty thousand Cypriot Pounds (30,000 CP);

(ii) in case of relapse, the competent Supervisory Authority may impose an administrative fine not exceeding sixty thousand Cypriot Pounds (60,000 CP);

(i) in the cases of Article 42-

(i) an administrative fine not exceeding one hundred and fifty thousand Cypriot Pounds (150,000 CP);

(ii) in case of relapse, the competent Supervisory Authority may impose an administrative fine not exceeding three thousand Cypriot Pounds (300,000 CP);

(j) in the context of sections (2) of Article 47, (13) of Article 48, (2) of Article 49, (3) of Article 50 and (6) of Article 52-

(i) an administrative fine not exceeding forty five thousand Cypriot Pounds (45,000 CP);

(ii) in case of relapse, the competent Supervisory Authority may impose an administrative fine not exceeding ninety thousand Cypriot Pounds (90,000 CP);

(k) in the context of section (4) of Article 50-

(i) an administrative fine not exceeding forty five thousand Cypriot Pounds (45,000 CP);

(ii) in case of relapse, the competent Supervisory Authority may impose an administrative fine not exceeding ninety thousand Cypriot Pounds (90,000 CP);

(l) in the context of section (3) of Article 62-

(i) an administrative fine not exceeding forty five thousand Cypriot Pounds (45,000 CP);

(ii) in case of relapse, the competent Supervisory Authority may impose an administrative fine not exceeding ninety thousand Cypriot Pounds (90,000 CP);

(m) in the context of Article 71 and of section (2) of Article 72-

(i) an administrative fine not exceeding forty five thousand Cypriot Pounds (45,000 CP);

(ii) in case of relapse, the competent Supervisory Authority may impose an administrative fine not exceeding ninety thousand Cypriot Pounds (90,000 CP).

(5) For any other infringement of the provisions of this Act or of any competent Supervisory Authority Regulations or Directives issued on the powers conferred hereunder, whether by an IF or by the BFRTO or by any other natural person or legal entity which is neither an IF or a BFRTO, the competent Supervisory Authority may impose the following sanctions upon the infringer, regard being had to the benefit derived from the breach

(i) an administrative fine not exceeding seventy five thousand Cypriot Pounds (75,000 CP);

(ii) in case of relapse, an administrative fine not exceeding one hundred and fifty thousand Cypriot Pounds (150.000 CP).

(6) In the event that, notwithstanding the imposition by the competent Supervisory Authority of a sanction pursuant to the provisions of this Article, the infringement in respect of which the sanction has been imposed continues, the competent Supervisory Authority may impose a fresh administrative fine and may do so repeatedly, treating non-compliance as a relapse, in the event that the infringer should not have complied with the legislative provisions within a reasonable period of time, which may not be less than one month.

An administrative fine may be repeatedly imposed in the context of repeated or continuous infringements.

Article 65 **Collection of Administrative fines**

(1) The administrative fines levied pursuant to the provisions of this Act accrue by way of revenue to the Treasury of the Republic.

(2) In the event of an omission to pay any administrative fine, the Republic shall resort to judicial recourse in order to collect the amounts due as a civil debt thereto.

Article 66 **Civil Liability**

IFs and BFRTOs shall make good to their clients such damage or loss of profits or both as might flow as a result of any advice, act or omission attributable thereto or to their agents, in breach of such of their duties as flow from the provisions of this Act and any competent Supervisory Authority Regulations or Directives issued hereunder.

No criminal or administrative liability can absolve an IF or a BFRTO from any civil liability of theirs in accordance with this Article.

IFs shall be entitled to claim from any of their agents any sum, which they might have themselves paid by way of compensation in the event that the former should have acted with malice.

PART XIV **FINAL AND TRANSITIONAL PROVISIONS**

Article 67

Repeal of any provisions contrary to the provisions in this Act

All the provisions in this Act are deemed to amount to *lex specialis* in respect of the issue in relation to which each one of them makes provision, any contrary provisions thereto being repealed as of the entry into force of this Act.

Article 68

Continuing validity of Central Bank Resolutions

Central Bank resolutions in respect of issues in relation to which the Central Bank acts in the capacity of competent Supervisory Authority pursuant to this Act remain in force to the extent that they do not run counter thereto, until such time as they have been amended by the Central Bank pursuant to this Act.

Article 69

Final and Transitional Provisions in respect of individuals providing investment services

(1) Natural persons or legal entities providing investment services to third parties on a professional basis at the time of entry into force of this Act, including the provision of the non-core service of paragraph 6, Part III of Annex One, may continue to do so for the term specified in section (3) of this Article, providing that:

a) in the course of the term in question there has been no broadening of the range and no shift in the nature of the services it provides, and

a) the person or entity concerned have applied to the Cyprus Securities and Exchange Commission:

(i) for a CIF authorisation, pursuant to Article 10, within 4 months of the publication of this Act in the Official Gazette of the Republic, or

(ii) for an authorization in accordance with Articles 29 and 30 of this Act, in respect of foreign undertakings operating in the Republic through a Branch or offering their services on a cross-border basis, within 4 months of the publication of this Act in the Official Gazette of the Republic.

(2) Where indents (i) or (ii) of paragraphs (b) of section (1) apply, the Cyprus Securities and Exchange Commission shall communicate to the applicant its decision to either grant the authorisation or to reject the application, within 4 months as of the submission of the application.

(3) The persons or entities referred to in indent (1), above, shall cease to provide any investment service whatsoever to any third party, and shall discharge such of their duties as derive from the provision of investment services or investment advice,

(j) If they have not duly applied for the grant of a CIF authorization, within 6 months, at the latest, as of the publication of this Act in the Official Gazette of the Republic;

(ii) if their application for the grant of a CIF authorization has been rejected, within 4 months at the latest as of the communication thereto of the Cyprus Securities and Exchange Commission's decision;

(iii) if they have not duly applied for the grant of an Article 29 and 30 authorization, within 6 months, at the latest, as of the publication of this Act in the Official Gazette of the Republic;

(iv) if their application for the grant of an Article 29 and 30 authorization has been rejected, within 4 months at the latest as of the communication thereto of the Cyprus Securities and Exchange Commission's decision.

Article 69A
Transitional provisions for international investment firms

(1) The companies which on December 31, 2002 are being taxed in accordance with section 28A of the Income Tax Laws 1961-2002, as long as they have the relevant license of the Central Bank authorizing them to provide investment services on a professional basis to third parties, as well as the non-core investment service of paragraph 6 of Part III of Appendix A, may continue providing these services after the date the present law comes into force, for such period as specified in subsection (3) of this section, provided that they submit to the SEC-

(k) application for CIF authorization in accordance with section 10 by June 30, 2003, or

(ii) application for the grant of authorization in accordance with sections 29 and 30 of this Law, in the case of foreign firms resident with a branch in the Republic and provide **within** the Republic cross border investment services by June 30, 2003

Provided that, companies, which further to the provision of this paragraph only provide the non-core service referred to in paragraph 6, Part III of Annex I, continue, unless provided otherwise in another Act, to provide the said service, if they hold the relevant permit issued by the Central Bank of Cyprus, without the obligation to submit an application as provided in subparagraphs (i) and (ii), for the granting of a CIF authorization.

(2) In case that paragraph (i) or paragraph (ii) of subsection 1 applies, the SEC has to issue its decision for approval or rejection of the application for authorization within 8 months from the date of submission of the application.

(3) The companies mentioned in subsection (1) cease to provide any kind of investment service to third parties, and have to discharge any of their duties to third parties, which derive from the provision of investment services or investment advice:

(i) in case they do not submit their application for the grant of CIF authorization within the fixed time-limit, by August 31, at the latest;

(ii) in case their application for the grant of a CIF authorization has been rejected, within 1 month at the latest as of the date of communication thereto of the SEC's decision;

(iii) in case they do not submit their application for the grant of authorization in accordance with sections 29 and 30, by August 31, at the latest;

(iv) in case their application for the grant of authorization in accordance with sections 29 and 30 has been rejected, within 1 month at the latest as of the date of communication thereto of the SEC's decision.

Article 70
Transitional provisions for CSE Members

(1) CSE members shall apply to the Cyprus Securities and Exchange Commission for a CIF authorization, in accordance with the provisions set out in this Act, within four months as from the date of publication of this Act in the Official Gazette of the Republic in order to maintain their capacity as CSE members.

(2) Irrespective of the provisions of stock exchange legislation, in the event that a CSE member's application for the grant of a CIF authorization should be rejected, such CSE member shall cease to provide any investment service whatsoever to any third party, including provision of investment advice in relation to financial instruments, and shall discharge its duties to its clients within one calendar month following upon communication thereto of the Cyprus Securities and Exchange Commission's rejection of the application, whereupon it shall forfeit its capacity as member of the CSE, becoming

entitled to be reimbursed in respect of its individual share in the Mutual Guarantee Fund pursuant to Article 56 of the Securities and Cyprus Stock Exchange Acts 1993 to (no.3) 2001.

(3) CSE members which have not applied to the SEC for authorization in accordance with section (1) within the time limit prescribed therein, shall automatically forfeit their capacity as members of the CSE and shall become obliged to immediately cease to provide any investment service whatsoever, including provision of investment advice in relation to financial instruments, and shall discharge their duties to their clients within a reasonable term, which cannot exceed one calendar month as of the date whereupon they have forfeited their capacity as members of the CSE.

(4) As long as a CSE member which exercised its functions on the date of entry of this Law into force is a bank's subsidiary and intends to transfer its services to its mother company, the bank, which bank has been granted by the competent authority with the necessary authorization for the provision of the investment service of paragraph (1) of Part I of Appendix A, this CSE Member may continue operating as a CSE member until 31.7.2003, providing this investment service of paragraph (1) of Part I of Appendix A of this Law.

Article 71 Compliance with Resolutions

(1) Subject to the provisions of this Law, and in order to achieve its aims the Cyprus Securities and Exchange Commission may issue Directives within the ambit of provisions of European Union acts valid in the Republic.

(2) Compliance with Resolutions issued by the competent Supervisory Authority, pursuant to this Act, shall be mandatory for their addressees. Subject to any special provisions, infringement thereof shall amount to an administrative breach punishable pursuant to indent (m) of section (4) of Article 64.

Article 72 Adoption of Regulations

(1) In addition to any provision hereunder, conferring a power for the issuing of special Regulations, the Ministerial Council shall have the power to issue Regulations governing any other issue which, pursuant to this Act, calls for regulation.

(2) Wherever in this Act powers are conferred for the adoption of Regulations by the Ministerial Council, such Regulations may further authorize the Supervisory Authorities to issue Resolutions making provision in respect of the Issues identified in the said Regulations.

(3) Breach of Regulations or Directives adopted on the powers conferred by this Act shall be punishable with an administrative fine pursuant to indent (m) of section (4) of Article 64.

Article 73 Entry into force

(1) Subject to the provisions of sections (2), (3) and (5), below, this Act shall enter into force as of the date of its publication in the Official Gazette of the Republic.

(2) Without prejudice to the provisions of section (1) and subject to the provisions of section (3), Articles 13, 24 to 28, 46 and 51, section (2) as well as paragraphs (b) and (d) of section (1) of Article 59 shall enter into force as of the date of accession of the Republic to the European Union.

(3) Subject to the provisions of sections (1) and (2), once this Act has come into force, the Ministerial Council may, by Resolution, render operative any of the provisions referred to in section (2) prior to the date of accession of the Republic to the European Union.

(4) Subject to the provisions in sections (1), (2) and (3), the provisions of this Act regarding third country IFs shall apply to member-state IFs until accession of the Republic to the European Union, irrespective of any reference to “third country” or “member-state”.

(5) Without prejudice to the provisions in subsections (1), (2), (3) and (4), the provisions of Articles 59 to 62 as well as any other provisions herein, to the extent that they refer to BFRTO shall not enter into force before December 31st 2006.

ANNEX ONE
PART I
(Articles 2,3,6,14)

Investment services, within the meaning of the Act, shall mean any of the services listed below:

1. (i) Reception and transmission, on behalf of investors, of orders in relation to one or more of the financial instruments;
(ii) Execution of such orders, as listed in section (i), other than for own account.
2. Dealing in financial instruments for own account.
3. Managing of investment portfolios in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more financial instruments.
4. Underwriting in respect of issues of any of the financial instruments in Part II of this Annex.

PART II
(Article 2)

Financial Instruments, within the meaning of this Act, shall mean any of the following instruments:

1. Transferable securities and shares in collective investment undertakings.
2. Money-market instruments.
3. Financial-futures contracts, including equivalent cash-settled instruments.
4. Forward interest-rate agreements (FRAs)

5. Interest-rate, currency and equity swaps
6. Options to acquire or dispose of any instruments falling within this section of the Annex, including equivalent cash-settled instruments. This category includes in particular currency and interest rate swaps.

PART III
(Articles 2, 55, 56, 57, 59)

Non-core services, within the meaning of this Act, shall mean any of the following services:

1. Safekeeping and administration in relation to one or more financial instruments.
2. Safe custody services.
3. Granting of credits or loans to clients to enable them to carry out transactions in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.
4. Advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and the buy-out of undertakings.
5. Services connected to underwriting.
6. Investment advice concerning one or more of the financial instruments.
7. Foreign-exchange services where these are connected with the provision of investment services.

ANNEX TWO
(Articles 2,8)

For the purposes of this Act, indirect participation shall mean the ownership by a person of shares or voting rights in the share capital of a legal entity, providing any one at least of the following requirements is met:

- a) the person in question holds the shares or the voting rights in issue in their own names do so for the indirect participant's account.

- b) the indirect participant controls the undertakings, which hold the shares or the voting rights.

- c) the shares and voting rights are held by a person with whom the indirect participant has concluded a written agreement whereby the holder of the shares or voting rights is required to adopt, through the coordinated exercise of his voting rights, a constant common policy therewith in respect of the issuer's management.

- d) the shares and voting rights are held by a person pursuant to a written agreement with the indirect participant or with any of the undertakings under his control, which makes provision for the temporary transfer, for consideration, of such person's voting rights to the indirect participant.

- e) the shares have been given as collateral with the result that the indirect participant exercises the voting rights deriving there under, unless such rights are exercised by the custodian, who has declared his intention to exercise them whereupon such voting rights are factored alongside those of the Custodian.

- f) the voting rights correspond to shares over which the indirect participant has a usufructuary right.

g) the indirect participant, including persons falling within the above-mentioned categories of persons, may acquire voting rights at his exclusive initiative by virtue of a written agreement.

h) The indirect participant is entitled to appoint such number of directors as to be in a position to effectively exercise control of the decisions reached by the Board of Directors.

i) the shares have been deposited to the indirect participant who may exercise the voting rights deriving there under at his discretion, provided there are no specific instructions by the beneficiaries of the shares.

j) Closely linked individuals hold the shares or rights.

For the purpose of assessing indirect participation, the shares and voting rights of individuals referred to in paragraphs (a) to (j) above as well as the voting rights held by closely linked individuals, within the meaning of Annex Five, shall be added to those of the indirect participant.

ANNEX THREE

(Article 2, 24)

For the purposes of this Act, home member-state shall mean:

- (a) the member-state in where its head office is situated, where the IF is a natural person;
- (b) the member state where its registered office and central management are situated, where the IF is a legal entity;

If, pursuant to the laws governing the IF, such IF has no registered office, home member-state shall mean the State where its central management is situated; and

- (c) in the case of a regulated market, home member-state shall mean the member-state where the registered office of the body which provides the transactions' infrastructure is situated or, where pursuant to the laws to which it is subject, such body has no registered office, the member-state where that body's central management is situated.

ANNEX FOUR

(Articles 2, 10)

Close links, within the meaning of this Act, shall mean the situation where two or more natural persons or legal entities are related to an undertaking through:

- a) participation, whether direct or through a relationship of control consisting in possession of at least twenty percent (20%) of the share capital or voting rights of such undertaking; or
- b) a relationship of control i.e. the relation existing between a parent undertaking and its subsidiary within the meaning of article 148 of the Companies Act, as each time applicable, or any similar relationship in between any natural person or legal entity and an undertaking, as specified by Resolution of the SEC; or
- c) a permanent relationship of control with the same natural person or legal entity; or
- d) such other relationship of dependence as the SEC might specify by way of Resolution.

The subsidiary of another subsidiary of the parent undertaking shall itself be considered the subsidiary of such parent undertaking.

ANNEX FIVE
(Articles 2, 53)

Related persons within the meaning of this Act shall mean:

- 1) Concerning natural persons
 - i) by rebuttable presumption, blood related relatives up to the second degree and the spouse, unless there is evidence to the effect that such persons exercise a separate professional activity and own their shares within the framework of such activity,
 - ii) persons who, in the opinion of the competent Supervisory Authority, are dependent upon or have material common interests with the above persons,
 - iii) undertakings controlled by a natural person or by persons related thereto, where the latter own at least twenty percent (20%) of their share capital or voting rights.

- 2) concerning legal entities, undertakings related thereto belonging to the same group as well as the natural persons who directly or indirectly control that legal person or its parent company, holding a minimum percentage of 20% of the share capital or of the voting rights, as well as their collaborators within the meaning of indents (b) and (c) of section (2) of Article 17 of the Banking Business Acts 1997 to 2000.

**ANNEX SIX
(Article 12)**

**PART I
DUTIES PAYABLE FOR THE EXAMINATION OF APPLICATIONS**

Service rendered	Duty
1. Examination of application for grant of an authorization	3000 Cypriot Pounds
2. Examination of application amendment to an authorization	1000 Cypriot Pounds
3. Examination of any other applicati	300 Cypriot Pounds

**PART II
DUTIES PAYABLE FOR NOTIFICATIONS CALLING FOR SEC TREATMENT**

Submission of notification	250 Cypriot Pounds
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