
TO : **Cyprus Investment Firms (CIFs)**

FROM : **Cyprus Securities and Exchange Commission**

DATE : **18 June 2024**

CIRCULAR NO. : **C646**

SUBJECT : **Review of the Investment Firms' prudential framework and data collection exercise**

The Cyprus Securities and Exchange Commission (the 'CySEC') wishes to inform the Cyprus Investment Firms (the 'CIFs') that the European Banking Authority (EBA) and European Securities Markets Authority (ESMA) issued on June 3, 2024, a [Discussion Paper on the European Commission's call for advice on the IFD/IFR \(the 'Discussion Paper'\)](#). Specifically,

1. Article 60 of Regulation (EU) 2019/2033 (IFR) and Article 66 of Directive (EU) 2019/2034 (IFD) mandate the European Commission to submit a report to the European Council and to the European Parliament regarding multiple aspects of the IFD and IFR. In its report, the European Commission may include a legislative proposal to amend the prudential framework applicable to investment firms.

Therefore, the European Commission expects the EBA and ESMA to assess the impact of the proposed changes against the current framework and publish a final report.

2. The Discussion Paper touches upon a broad range of topics, including:

- The categorisation of investment firms.
- The conditions for investment firms that qualify as small and non interconnected, including the criteria for their categorisation as well as considerations regarding the transition period from one category to another.
- The adequacy of the own-funds requirements.
- Reviews the existing K-factors and recommends improvements in definitions or calculation methodologies.
- Introduction of new K-factors, to cover risks currently only addressed under the pillar 2 framework or as possible alternatives to existing K-factors.
- The implications of the adoption of the Banking Package (CRR3/CRD6) concerning the introduction of the fundamental review of the trading book (FRTB) and credit valuation adjustments (CVA).
- Assessment of the existing liquidity requirements.
- The prudential consolidation of investment firm groups, suggesting improvements and extending the scope in line with similar provisions of the CRR as well as a possible extension of the scope to crowdfunding and crypto service providers.

- An analysis of the interactions of IFD and IFR with other regulations, the interaction with the own funds requirements applicable to AIFMs and UCITS management companies providing ancillary MiFID services.
 - The remuneration in relation to investment firms, AIFMs and UCITS management companies, including the scope of application, remuneration policies, the requirements on variable remuneration, their oversight, disclosure and transparency.
 - Reporting as well as references covered by other EBA publications (e.g., risks related to ESG factors and investment policy disclosure for investment firms).
3. CIFs may submit their comments on the issues raised in the Discussion Paper, **by 3 September 2024**.
 4. To assess the impact of the possible changes discussed in the Consultation Paper the EBA launched a [data collection exercise](#). The participation in this data collection exercise is voluntary.
 5. CIFs participating in the data collection are required to submit the completed [templates](#) to CySEC **by July 19, 2024** via email to prudential@cysec.gov.cy. Following the data quality assurance, the CIFs may be required to re-submit revised templates, by 23 August 2024.
 6. For more information regarding the above you may visit this [link](#).
 7. CySEC strongly encourages CIFs to submit comments on the issues raised in the Discussion Paper and participate in this data collection exercise.

Sincerely,

Dr. George Theocharides
Chairman
Cyprus Securities and Exchange Commission