



Cyprus Fiduciary Association

3rd Brainstorming Event – 22nd June 2022

Outcome Report

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1. Improvement of Cyprus Reputation as a jurisdiction/ Current Affairs

A. Introduction

The group discussion was moderated by Melina Karaolia, a CYFA Board Member and a Partner in M. Eliades & Partners LLC. The purpose of the group was to discuss the current status of Cyprus reputation as a business centre and to identify possible actions that could be undertaken to offer a more competitive business environment and restore the trust of investors for the benefit of the industry.

B. Outcome

The group recognised the fact that the reputation of Cyprus has been negatively affected over the past years and that actions are urgently needed to reverse the current adverse image of Cyprus abroad.

The following were identified as important parameters to enhance the overall credibility and better reputation of Cyprus as a jurisdiction:

- Proceed with timely transposition and harmonization of EU regulations and directives.
- Proceed to establish organized and transparent licensing procedures / reliable legal system.
- Maintain the Cyprus financial services sector at an advanced and sophisticated level.
- Investing in technological advances to develop to meet with regulatory demands.

In addition, the group considered as vital:

- The need for a banking system that is more responsive to clients and more client oriented.
- The need for promoting our common law jurisdiction status and the use of trusts structure.
- The need for an automated and digitalized public sector that would result in faster, credible, and efficient processes (as a first order of business KYC procedures could be digitalized).
- The need to address public departments (i.e Tax dept, Registrar Office, Immigration Dept) that are highly involved in the ASP operations.
- The need for actions towards reviving the discussion to introduce specific laws such as the Foundation Law, Cell Company Law and e-KYC framework.

2. Tax Issues: Reform & Issues with Registrar/Tax Dept

A. Introduction

The group discussion was moderated by Michalis Eleftheriou, a member of the CYFA Legal & Tax Committee and an Associate Director in Nobel Trust Ltd. The purpose of the group was to discuss the latest and upcoming developments in the tax system as well as to identify the main challenges with the Registrar of Companies / Taxation Departments and provide plausible recommendations.

B. Outcome

The group discussed issues related to the upcoming tax regime reform, ATAD 3 / Unshelling Directive and considered challenges faced with relevant government authorities. Specifically:

Tax Regime Reform: It was agreed that the need for reform is vital and that the new system should:

- Follow the international tax updates
- Be available in the English language
- Be simple and understandable for all taxpayers
- Replace old and outdated laws such as stamp duty law.

Increase of corporate tax rate to 15%:

- The increase from 12,5% to 15% is not expected to have a huge negative impact. On the contrary, as discussed, Cyprus will be aligned with the international tax trends. The provision though of other tax breaks and benefits in case of a relevant tax rate increase is of vital importance, especially to foreign investors.
- Authorities should consider the possibility for the 15% rate not to be applied to all companies.

Tax department:

- It was agreed that the Tax Dept should have a more proactive stance especially on key issues whereby guidelines are required (e.g. Cryptocurrency taxation)
- It should further expand its electronic services to cover a larger spectrum of services, such as an online tax residency Certificate request, an online tax clearance and an online tax clearance certificate.

ATAD 3 / Unshelling: As the upcoming legislation is still being discussed on an EU level and is subject to changes, the discussion group considered only the current draft provisions. CYFA representatives noted that the Association is consulting with the Ministry of Finance and has already provided in writing its positions.

3. Compliance, Risk and Regulatory Challenges/Current Affairs

A. Introduction

The group discussion was moderated by Maria Chan, the President of the CYFA AML & Compliance Affairs Committee and the MLCO of Trident Trust Company (Cyprus) Ltd. The purpose of the group was to address the current compliance and regulatory challenges and provide relevant suggestions.

B. Outcome

Sanctions & Current Compliance Requirements: The impact of the latest EU sanctions imposed, the uncertainty associated with the crisis, the lack of sufficient guidelines and consultation from Government Authorities and Regulators were identified as currently being the biggest challenges and risk to the industry.

Cyprus Trust Register – CyTBOR: Commenting on the introduction of the new trust submission system by CySEC, it was noted firstly by all participants that the system needs further development as it is not user-friendly and that CySEC needs to clarify the submission deadline. In addition, it was noted that all three regulators should be aligned with the current reporting obligations for all trusts to be submitted with CySEC.

RBSF – CySEC: The reporting difficulties, the inapplicability of specific questions, the practical obstacles in collecting and submitting accurate results in relation to the latest RBSF version were noted. It was suggested that relevant communication should be continued with CySEC to align reporting requirements with industry working practices.

e-KYC: The introduction of e-KYC procedures by relevant stakeholders is of high importance.

Unshell Directive: The development of the proposal should be monitored closely as it could potentially affect the industry following provisions of stricter substance rules.

Training & Development: E-Learning systems and continuous training should be endorsed.

Business Risk Assessment: It was recommended that ASP's should proceed with an assessment of their business risk, to measure risk probability, exposure and impact.

Lobbying with Decision/Policy makers: The group pointed out the need for continuous lobbying with all industry stakeholders and decision makers. CYFA noted that several actions and initiatives are undertaken at all levels and that the Association's aim is to continue and enhance its efforts towards communicating industry positions to all stakeholders involved.

4. Banking Issues/Current Affairs

A. Introduction

The group discussion was moderated by George Ayiomamitis, a CYFA Board member and the CEO of Sovereign Trust Cyprus Ltd. The purpose of the group was to address the current challenges faced by our banking system and to provide suggestions on how these can be overcome.

B. Outcome

Participants commented on the limitations posed to the banks due to the enhanced regulatory framework, stricter KYC and client onboarding procedures and the restrictive measures from current EU sanctions. Further several drawbacks that affect daily operations such as delays in opening bank accounts, high charges imposed on various transactions and bureaucracy were identified. The impact from the adoption of the current Unshelling proposal to the banking system was noted as it is expected to create a huge administrative burden following the obligation of financial institutions to create a bank account for every single Cyprus company.

Furthermore, it was noted that the widely adopted de-risking strategy of local banks arising from increased local and international regulation, US and EU sanctions and the pressure from the correspondent banks, is leading to the closure of a very large amount of bank accounts for international business companies. The adopted “zero risk and tolerance” bank approach due to the thread of impairing their correspondent banking relationships is leading bank institutions to terminate all client relationships associated with any likely reputational issues due to negative publicity of any kind which other foreign banks. As a result, many international business companies need to look for alternative banking services outside the jurisdiction of the company’s incorporation and/or operation which in certain cases can be detrimental in claiming treaty benefits which is one of the main reasons for using Cyprus in the first place.

Looking forward, participants suggested that several actions can be undertaken to at least mitigate the existing situation. A vital parameter is the digitalization of processes and the need for banks to introduce innovative technology to speed up and simplify processes as well reducing relevant costs. It was noted by bank representatives present that further digitalisation is part of future plans and that a Directive is expected from the Central Bank on the digitalization of Due Diligence review procedures that shall have a positive effect on the industry in general. Further it appears that a number of procedures such as accepting digital signatures and the digital verification of the UBO are under review by specific banking institutions and should be applied soon. In addition, participants noted the paramount importance of increased coordination and collaboration between the banking system and the industry as this would enable all stakeholders to exchange ideas, align operations and solve various practical issues. Finally, the attraction of international banks to Cyprus should be one of the main targets of the industry as a whole and that all stakeholders including the government should work towards that direction.

5. Conclusion

It was suggested by all participants that CYFA should continue monitoring closely relevant developments on all the above matters and engage in all necessary consultation as deemed necessary to communicate relevant issues/challenges with industry stakeholders.

6. CYFA General Objectives

BANKING			
S/N	Risk / Objective	Action Point	Authorities/Organisations involved
1	<i>De-risking strategy and zero-risk approach by Cyprus Banks</i>	CYFA should undertake to liaise with the Heads of the IBUs and the local banks' management boards where possible, the Cyprus Banks Association and the Central Bank of Cyprus and try to reach an understanding as to how a de-risking strategy can be aligned with the survival of the legitimate international business which is not associated with sanctioned individuals and entities, extremely high risk industries and countries.	<ul style="list-style-type: none"> ▪ Banking Association ▪ Commercial Banks ▪ Central Bank of Cyprus
2	<i>Improve Banking Best Practices</i>	A general target should be the promotion and introduction of technology and digitalization within banking practices. CYFA could assist banks where possible with relevant suggestions so that banking practices are aligned and reflect industry operations.	<ul style="list-style-type: none"> ▪ Banking Association ▪ Commercial Banks
3	<i>Uniform AML/FT policies procedures and practices by Cyprus Banks</i>	CYFA should liaise with the Heads of the IBUs and the Compliance directors and teams of the banks to try and reach an understanding as to how the banks' employees at the first line of defense can improve their skills and understanding of the client real risks and needs.	<ul style="list-style-type: none"> ▪ Banking Association ▪ Commercial Banks ▪ Central Bank of Cyprus
4	<i>CYFA – Bank of Cyprus Banking Forum</i>	It is noted that the Banking Forum organized in collaboration with Bank of Cyprus (a CYFA exclusive sponsor) in 2021 has acted as a platform and has provided the opportunity for members to discuss all relevant banking issues. CYFA in collaboration with Bank of Cyprus, plans to continue building on similar discussion platforms for the benefit of its members.	<ul style="list-style-type: none"> • Bank of Cyprus

REGULATION AND COMPLIANCE			
S/N	Risk / Objective	Action Point	Authorities/Organisations involved
1	<i>Uniform instead of Common Regulation</i>	The Association should aim for the establishment of a uniform regulatory framework (uniform regulation) in relation to the administrative service providers. This would essentially allow ASP's to serve to the highest possible standard, the potentially less but more 'strong' and compliant customers who are expected to be active in the Cypriot market in the future.	<ul style="list-style-type: none"> ▪ Ministry of Finance ▪ Cyprus Securities & Exchange Commission ▪ Institute of Certified Public Accountants ▪ Cyprus Bar Association
2	<i>Keeping regulation up to date with recent developments on a timely basis</i>	CYFA should undertake to liaise with the Government, Regulators and Authorities to discuss status of pending legislation and/or regulations (current or anticipated) and promote the idea of working/consultation Groups with participants from all Stakeholder Groups to ensure prompt drafting and issuance of necessary new legislation and Regulation.	<ul style="list-style-type: none"> ▪ Ministry of Finance ▪ Cyprus Securities & Exchange Commission ▪ Institute of Certified Public Accountants ▪ Cyprus Bar Association
3	<i>Effective Implementation of Legislation and/or Regulation</i>	CYFA should undertake to liaise with the Government, Regulators and Authorities to discuss status of pending legislation and/or regulations (current or anticipated) and promote the idea of working/consultation Groups with participants from all Stakeholder Groups and practical workshops to agree on the implementation issues of existing and new regulation.	<ul style="list-style-type: none"> ▪ Ministry of Finance ▪ Cyprus Securities & Exchange Commission ▪ Institute of Certified Public Accountants ▪ Cyprus Bar Association
4	<i>Promoting specific issues with Government and Industry Stakeholders</i>	CYFA should communicate, where appropriate, relevant issues faced with the current compliance requirements (i.e RBSF, Sanctions, Trust Register, E-KYC) with Industry Regulators and Government Authorities.	<ul style="list-style-type: none"> ▪ Ministry of Finance ▪ Cyprus Securities & Exchange Commission ▪ Institute of Certified Public Accountants ▪ Cyprus Bar Association

CYPRUS STRATEGIC DIRECTION

S/N	Risk / Objective	Action Point	Authorities/Organisations involved
1	<i>New Approach - Business Model for Cyprus/Tax Reform</i>	CYFA should continue its efforts with the Government and all other stakeholders to discuss the upcoming tax reform and other legislative changes and explore the possibility for a change in the Business Model of Cyprus to take in to account all current and anticipated developments in the industry worldwide.	<ul style="list-style-type: none"> ▪ Ministry of Finance ▪ Cyprus Securities & Exchange Commission ▪ Institute of Certified Public Accountants ▪ Cyprus Bar Association
2	<i>Increased lobbying and representation</i>	Lobbying with decision makers is of outmost importance both for increasing awareness on the industry issues as well as promoting new standards and new legislation. CYFA should continue and enhance its lobbying activities at all levels including government officials, regulators, political parties and other associations as well as other important stakeholders in the private sector.	<ul style="list-style-type: none"> ▪ Relevant Ministries ▪ Cyprus Securities & Exchange Commission ▪ Institute of Certified Public Accountants ▪ Cyprus Bar Association ▪ Industry stakeholders
3	<i>To restore and enhance reputation of Cyprus as a credible international professional service centre</i>	The country's reputation is vital in the attempts to preserve our competitiveness and credibility as an international financial centre. Cyprus's reputation is constantly under fire not only by external pressure but also by repeated internal mistakes and omissions. The need therefore for restoration and further improvement is critical.	<ul style="list-style-type: none"> ▪ Ministry of Finance/Foreign Affairs/Commerce ▪ Cyprus Securities & Exchange Commission ▪ Institute of Certified Public Accountants ▪ Cyprus Bar Association ▪ Invest Cyprus
4	<i>Monitoring of proposed Laws and Promotion of transparency</i>	CYFA in multiple occasions has engaged in public consultations to various proposed laws/regulations that are affecting the industry and will continue to monitor proposed tax and other bills and provide comments that promote transparency and the best interests of the industry	<ul style="list-style-type: none"> ▪ House of Parliament ▪ Relevant Ministries ▪ Industry Regulators