

Cyprus Fiduciary Association

4th Brainstorming Event – 6th September 2023

Outcome Report

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

A. Introduction

The group discussion was moderated by Andis Petrou, the President of the CYFA PR & Communications Committee and the Director of Communications of Chelco Management Ltd. The purpose of the group was to discuss the status of Cyprus reputation as an international corporate centre and to identify possible actions and initiatives to improve the current situation for the benefit of the industry.

B. Outcome

The group discussion was structured into two parts, commenting first on the latest developments and the factors affecting reputation followed by a proposed work plan.

Improving Cyprus' Reputation as a jurisdiction: Communicating the right message

Part 1 – Factors affecting reputation:

- The current risk approaches followed by banking institutions in the country are considered to negatively affect industry operations through the imposition of increased hurdles that in turn affect the jurisdiction's reputation.
- The recent sanctions imposed to Cypriot entities.
- The increasing and stricter EU tax regulatory framework and the new developments on DTT's, Transfer Pricing, etc. are further imposing pressure to Cyprus as an international business center leading to a loss in international clients.
- The large and highly bureaucratic public sector of Cyprus, leading to long delays and disruption in operations. It was noted that the huge delays observed are having a direct adverse impact on the competitive advantage of Cyprus as a business jurisdiction and hence a negative effect on its reputation.
- Lack of sufficient guidance from regulating bodies results in lack of clarity in the application of the relevant laws/regulations. This in general is translated into unnecessary and time consuming deliberations with prospective clients leading in avoidable frustrations.
- Outdated laws and regulations.

Part 2 - Communicating the Right Message – Work Plan:

The group proceeded to make several industry specific recommendations. Specifically, the group identified the following as vital in achieving more credibility and better reputation as an international business center:

- Need to move forward by establishing a new business model that will assist Cyprus evolve and re-establish itself as an international business center. Government-funded agencies such as Invest Cyprus need to take a more active role in promoting Cyprus while the whole process requires the involvement and communication of both government authorities and industry

stakeholders. It was recommended that CYFA could play an invaluable role in this effort and should cooperate closely with relevant stakeholders to assist in the process.

- Need to develop a flexible, modern, and dynamic legal system.
- Need to improve the efficiency of government authorities and bodies. This could be achieved by a better regulatory framework, the utilisation of modern technology/software as well as increased training and a change in culture. Examples include the introduction of electronic signatures and the introduction of Blockchain technologies.
- The need for a uniform AML legislation and regulatory framework. At the same time, the need for better and timely supervision from regulators is of vital importance.
- The need to utilise young talented people/qualified personnel in both the public and private sector.

In conclusion, it was suggested that CYFA need to be even more proactive and as part of its overall strategy it should initiate discussions with all industry stakeholders and provide suggestions on how to improve Cyprus reputation as this is considered vital for the long-term sustainability and viability of the professional services industry.

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 identify the main challenges with the Registrar/Tax dept and provide plausible recommendations.

B. Outcome

The group considered the current tax developments and how international tax issues are affecting the industry. Specifically, the following were discussed:

Tax Regime Reform:

In line with last year's outcome, it was agreed that the reform is necessary, and that the new system should have the following characteristics:

- It should follow the international tax updates
- Any new set of laws should also be available in the English language
- It should be simple and understandable for all taxpayers
- Should replace old and outdated laws such as stamp duty law.

Increase of corporate tax rate to 15%:

- The group commented that Cyprus should align with the increase the tax rate in line with international tax trends and to avoid being targeted as a low-tax jurisdiction. The increase from 12,5% to 15% is not that considerable in terms of increase thus no huge negative impact is expected. On the contrary, Cyprus will be aligned with the international tax trends i.e. BEPS 2.0. However, if such a measure is taken other tax breaks and benefits should be granted specifically to foreign investors as counter measures.
- It is suggested that the authorities should consider the possibility for the 15% rate not to have a universal application to all companies. At the same time the government should proceed and before any final implementation, provide the industry adequate time for adjustment.
- It is suggested that CYFA should follow relevant developments closely.

Taxation of Crypto assets:

- Considering the rapid development of the crypto industry and their increasing usage, it is suggested that CYFA should request the tax office to issue a circular clarifying the taxing of crypto assets.

ATAD 3/Unshelling:

- As the upcoming legislation is still being discussed on an EU level and is subject to changes, the discussion group noted that the uncertainty around this matter creates frustration among clients and professionals. On behalf of the CYFA it was noted that the Association is in direct contact with Ministry of Finance officials dealing with the subject at a country level as well as other industry stakeholders and will inform of any further updates accordingly.

IT advancement:

- Cyprus and especially the tax authorities need to invest heavily in technology to simplify and speed up processes for taxpayers/investors/professionals (Greece could be a good example). The group noted the imperative need for government authorities to integrate platforms, electronic filing of documents, electronic signatures and generally create a paperless environment.

As a conclusion it was agreed that CYFA should continue monitoring closely relevant developments on all the above matters and engage in all necessary consultation with relevant stakeholders as appropriate.

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 Senior Manager – Compliance of Trident Trust Company (Cyprus) Ltd. The purpose of the group was to discuss the current sanctions compliance environment and related risks, address the current regulatory challenges and provide suggestions.

B. Outcome

Sanctions Compliance & Risks

The discussion centered around the impact of Russian related sanctions on the industry. The following issues were identified as problematic for the industry:

- The great degree of ambiguity, complexity, continuous amendments/additions to regulations that surrounds the legal framework on sanctions. This, combined with the lack of guidance and/or advice on practical implementation of the sanction's regimes, is imposing ASPs with a significant administrative burden in ensuring sanctions Compliance.
- The cost of sanctions compliance is particularly high, especially for smaller firms which might face challenges in continuing their operations.
- The risk of being considered an 'enabler' in terms of legal actions that may have been taken for clients in the past.
- The monitoring, adoption, and application of US/UK sanctions.
- Application of stricter banking policies.

The following action points /suggestions were made:

- Ministry of Finance to streamline their processes and be able to review requests /applications and provide faster processing/responses and, where applicable, guidance.
- ASPs to look for other markets and opportunities and to replace the reliance on Russian market.
- Government procedures to enable relocation to Cyprus of foreign businesses to become more efficient and faster (e.g., in terms of review of permanent residency applications, work permit applications, registrar of companies incorporations /changes).
- Banks to increase their efficiency in the application of compliance procedures and understanding of Clients.

Current Regulatory Challenges

It was firstly agreed that since the ASP regulation has been introduced, the sector has matured. The ASP's currently compose a very capable industry ready to adapt, implement changes and create growth in a compliant and efficient manner.

The support therefore of the government is required to assist the sector in:

- Implementing necessary changes, adopting relevant legislation and updating laws and regulations (e.g. implementation of electronic identification and electronic signatures).
- Being regulated in a unified and consistent manner, elevating compliance across all firms with a fully comprehensive and more harmonised application of supervision and monitoring.

The group concluded that a comprehensive ASP regulatory and supervisory framework will ensure a common level playing field and effective supervision of ASPs and will result in an increased level of compliance by the ASP sector, assisting further in the enhancement of the sector reputation and of Cyprus.

4. Banking Issues/Current Affairs

A. Introduction

The group discussion was moderated by Marilena Stylianou, a Senior Manager at Trident 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

The discussion evolved around the fact that the local banking industry/banking landscape has changed a lot, and even more since the war between Russia and Ukraine started.

The local banks are being very cautious in terms of the implementation of sanctions/processing of transactions. The application of sanctions has become a very complicated task that obliges the banks to be constantly trying to protect their reputation. Currently, for transactions to be processed a clean record in relation to any Russia linkages/ties is required. It is therefore a normal development that banks under the pressure of breaching or accused to breach any sanctions, will reduce their risk-appetite and proceed to a gradual disengagement in servicing Russian clients and Russian related entities. At the same time, it was noted that the banking sector will not be relaxing any of its policies/procedures any time soon since doing banking business will become more and more complicated internationally (due to expected stricter sanctions/regulations).

The panel has also discussed the need for training and enhancement of specific industry knowledge to banking staff. It was noted that the replacement of long-standing employees with new non-industry knowledgeable ones, is affecting the service industry and the efficiencies around doing business (considering the complexities arising due to the current regulatory framework). As noted by the bank representative present, local banks are heading towards digitalizing more and more processes thus reducing the routine workload of human staff, who will be able to focus on important/high value activities. Staff members will eventually be reviewing electronically supplied information, simply to verify accuracy, completeness, relevance and apply critical thinking.

The bank representative further informed the group that the Bank of Cyprus is currently using an associate/gateway with the Registrar of Companies so that the banking staff will be in a position to extract corporate information (e.g. shareholding structures, etc) directly from the Registrar's site, in an attempt to add to the efficiencies around bank account openings and the underlying statutory documentation which needs to be provided to the banks. This arrangement will be also considered with regards to the Registrar of other EU & UK jurisdictions, and not only for the local Registrar of Companies.

In addition, it was noted that local banks are also moving towards the establishment of additional enhancements of digitalized banking, that are expected to reduce time delays in executing transactions or opening bank accounts. For example, it was mentioned that the current practice of opening a private account online, is expected to be gradually extended.

Way Forward

The panel ended the discussion by touching on the “way forward”. An important parameter discussed was how banks could assist in attracting new third country clients. On this aspect, the bank representative expressed the willingness of local banks to facilitate business with third-country clients which can apply successfully through the current Digital channels (Digital ID verification) or Cyprus Embassies. To assist the above it was mentioned that local banks will soon enhance their online verification system for onboarding new EU clients, thus facilitating a speedier client identification.

In addition, the group agreed that service providers and local banks will have to co-operate in an attempt to study better these new jurisdictions and try to adjust to the new circumstances (i.e. find solutions to accommodate jurisdictions which do not provide for a tax number for the UBO, do not prepare financial statements, etc.). It was further concluded that all cases will have to be examined thoroughly and separately.

Lastly, it has been agreed that a collective effort should be made by the banks, in offering incentives, discounted bank charges, some case-by-case relaxations. At the same time local service providers should be ready to connect with our common customers and agree to provide all relevant documentation, to assist banks in their review and assessment.