

Cyprus Fiduciary Association

5th Brainstorming Event – 11th September 2024

Outcome Report

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1. Salvaging Cyprus' Reputation as a jurisdiction: Is there hope?

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 Services Ltd. The purpose was to discuss the current 'image' of Cyprus' reputation as an international business location, discuss the progress as compared to the previous year and to identify possible initiatives and their bearers that could further lead to its improvement.

B. Outcome

The group discussion was structured into two parts, commenting first on the current issues and latest developments that affect Cyprus as an international business center, followed by a proposed action plan.

Part 1. Latest Developments/Issues

- The working group highlighted the inadequacies of the public sector and the ineffectiveness of establishing systems/frameworks that would enhance reputation and provide certainty to investors. It was noted that the huge delays and other practical problems that keep emerging (i.e. IT systems, UBO Registry, etc.) are having a direct adverse impact on the service providers' operations and in extent, the competitive advantage of Cyprus as a business jurisdiction and hence a negative effect on its reputation.
- The current risk approaches and methods 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 ongoing sanctions on Russia and the inclusion of Cypriot entities to sanctions or 'grey' lists either by EU, US or Russia have greatly and negatively affected trust on Cypriot-based providers while at the same time have eradicated the Russian business market in Cyprus. As noted, Cyprus as a jurisdiction is 'stigmatized' by adverse media on a constant basis, which further leads to loss of investor confidence and trust.
- 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- Outdated laws and regulations.
- The latest tax developments such as Transfer Pricing, CAD, etc. are further imposing pressure on the jurisdiction and its current business model.

Part 2. Work Plan: The Way forward

The following were identified as vital to enhance reputation and credibility as an industry and jurisdiction:

- Taking into consideration the fact the Russian market is now pretty much obsolete, the need to move forward and differentiate our target market and services was identified as crucial. This entails the development, promotion and improvement of new and existing services and hence the establishment of a new business model. The group positively noted the importance of Invest Cyprus' initiatives to 'open' new markets such as India. The group further noted the positive actions that CYFA has taken last year such as the MoUs established with Invest Cyprus, the Cyprus Fiscal Council, the Cyprus Integrity Forum and CIFA and suggested that CYFA should continue to enhance its engagement with relevant stakeholders and join forces in the attempt to establish new markets and services.
- The need for government-funded agencies, such as Invest Cyprus, 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 by further intensifying its close cooperation with relevant stakeholders to assist in the process. The group also noted that initiatives such as today's event are valuable in enhancing communication among all industry stakeholders.
- The need to implement a single digital gateway and the need to develop a flexible, modern, and dynamic legal system.
- The need to improve the efficiency of government authorities and bodies. This could be achieved by a better regulatory framework (i.e. consolidation of company law), 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. This will ultimately allow for more effective operations and allow the screening of clients/investors more diligently by both service providers, banking institutions and government authorities.
- The need to improve the current banking framework and methods of operation to reflect relevant risk.
- The need for a uniform AML legislation and regulatory framework. At the same time, the need for better and timely guidance from all authorities is of vital importance.
- The need to utilise young talented people/qualified personnel in both the public and private sector.
- The need to make government funds available for international marketing, crisis management and damage control and to delegate this task to a top global marketing agency for implementation.

In conclusion, the group noted Cyprus' strengths such as the highly professional private sector, the strong private infrastructure and the educated workforce among others and suggested that CYFA need to be even more proactive and organise more 'think tanks', such as today's event, with all industry stakeholders and provide relevant suggestions.

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

A. Introduction

The group discussion was moderated by Tasos Michael, a Board member of the CYFA and a Director in Guricon Ltd. The purpose of the group was to discuss the latest and upcoming developments in our tax system.

B. Outcome

The following issues and developments were discussed:

Adoption of BEPS 2.0 Pillar 2

The group discussed on the provisions of Pillar 2 (Global minimum tax 15% for MNEs with a turnover of more than Euro 750 million) that would in practice force companies to pay taxes where they operate and not where they are domiciled or headquartered. As mentioned in order to harmonize the national legislation with the EU Directive, a relevant bill has been drafted titled 'The implementation of a Global Minimum Level of Taxation of Multinational Business Groups and Large-Scale Domestic Groups in the Union Law of 2024,' which will be submitted to the House of Representatives to be voted into Law during the last quarter of 2024.

Directive on Faster and Safer Relief of Excess Withholding Taxes (FASTER)

The group discussed the European Commission (the Commission) legislative proposal for a Directive setting forth rules aimed at making withholding tax procedures in the European Union (EU) more efficient and secure. Member states will have to transpose the directive into national legislation by 31 December 2028, and national rules will have to become applicable from 1 January 2030.

Cyprus Tax reform – Position of our tax committee

In relation to the upcoming reform of the tax regime, group participants were informed of the latest developments and the actions taken by the Association. As mentioned, the study for the formulation of the tax regime reform has been undertaken by the University of Cyprus and is expected to be completed by late 2024 aiming to be in force during 2025. CYFA has been engaged in the consultation procedure and bilateral meetings were held between UCY project team and CYFA representatives. Association suggestions evolved around the need to ensure clarity, transparency, equality and consolidation of legislations. In addition, CYFA commented on the forthcoming corporate tax increase of 15% suggesting that any increase must be accompanied by simplification / elimination of other taxes and must not be done at the expense of taxpayers. Moreover, tax assessments and returns must become timelier while any thoughts about the liability of Directors for the payment of taxes cannot be a matter for discussion before the tax assessment period is reduced to a few weeks post submission of tax return.

Other Cyprus tax administration issues:

The group further discussed issues in relation to Transfer Pricing commenting on the latest obligations and informing participants that the Cyprus Tax Department FAQ's in relation to TP have been uploaded to the Tax Dept website. In addition, the group commented on the need of the government to invest heavily in technology to simplify and speed up processes for taxpayers/investors/professionals.

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

Staying compliant with financial sanctions, ensuring proper completion of all necessary reporting obligations and managing the associated risk remains a top challenge for the sector. Contributing factors identified towards increased risk are:

- Complexity of prohibitions and grey areas / lack of clarity
- Increase of reporting obligations (e.g. Article 5r) with unclear guidance /lack of interpretation
- Delays from MEK (Sanctions Enforcement Unit) in responding to requests for approval /authorization.

In managing the above risks, the following mitigating steps /suggestions have been discussed:

- Use of technology for persistent ongoing sanctions screening.
- Making sure sanctions screening tools utilised are appropriately configured to deliver desired results in compliance with regulatory expectations.
- Re-evaluate increased sanctions compliance cost, risk appetite and de-risking where necessary.
- Need for Ministry of Finance to be able to provide high quality, easily accessible and easy to understand guidance to support the implementation of financial sanctions. Where possible, a body /group within the Ministry should be available to address questions that need clarification and to assist market participants with the correct interpretation and application of relevant sanctions.

Uniformity of Regulation of the ASP Sector

The lack of common reporting obligations and rules/regulations within the ASP sector with significantly more onerous reporting obligations for the ASPs supervised by CySEC at an increased cost was discussed.

The Government's intention for harmonizing the supervision of the sector was considered by the group as positive in improving Cyprus's reputation with benefit for the industry and the country, taking also into account the introduction of AMLA at EU level and the new EU AML Regulation.

Regulatory Compliance - Transaction Monitoring – Reporting Obligations

Compliance officers face challenges of increased regulatory obligations and the complexity of implementing and performing adequate transaction monitoring to prevent and detect any sanctions /AML /CFT non-compliance. These challenges require a series of activities and steps to ensure compliance with all different regulations (e.g. AEOI /DAC6 / UBO registers). The following suggestions have been made in handling these challenges:

- Use of technology to assist manual processes – implementation of AI in industry automation
- Training of Staff and encouraging a compliance structure
- Recruitment and retention of talent. People as a significant asset for the ASP to handle challenges, implement solutions and maintain compliance.

Cyber Security – Fraud – Financial Crime

The group touched upon the subject of Cyber-crime, fraud and financial crime. It was identified that, due to the open culture of trust in Cyprus, it might be that we are easier targets for criminals, fraudsters and hackers and vigilance is required. It is important to have:

- Ongoing training and raising awareness
- Applauding people who identified and reported potential attacks
- Sharing knowledge and cases of cybercrime, fraud and financial crime to raise awareness of the likely threats in our industry.

4. Banking Issues/Current Affairs

A. Introduction

The group discussion was moderated by Stephanie Kefalonitie, Senior Banking Administrator at Trident Trust (Cyprus) Ltd. The group focused on the evolving landscape of the banking sector in Cyprus, exploring how the industry is grappling with challenges posed by the Ukraine war, international sanctions, and regulatory pressures from both the European Union and the United States.

B. Outcome

Participants discussed the implications of the developments on compliance, customer onboarding process, banking fees and operational efficiency. The goal was to identify actionable strategies that local banks can adopt to navigate this complex environment while ensuring stability, compliance, and customer satisfaction. During the discussion the members of the panel focused on the following matters:

1. Onboarding Procedures for Bank Accounts

- **Streamlined Onboarding:** The group highlighted the need to simplify the processes for opening bank accounts while ensuring rigorous KYC processes. Automating parts of the onboarding process using identification tools, to verify documents efficiently while maintaining compliance with AML and sanction regulations could be engaged.
- **Focus on Risk Profiling:** The importance of strengthening risk-based onboarding to better identify high risk clients, especially those linked to regions under sanctions was noted. Banks can improve customer segmentation based on risk profiles to apply differentiated procedures for low risk and high-risk clients.
- **Balancing Regulation and Customer Experience:** The introduction of fast-track procedures for low-risk individuals and business to speed up account opening is necessary as well as the need to provide clearer guidelines and assistance for clients navigating complex regulatory environments, particularly when sanctions are involved.

2. Banking Fees

- **Review of Banking Fees:** The group noted the need to ensure transparency in banking fees to maintain trust, for both foreign and local clients. Clients are sensitive to additional costs related to cross-border transactions, sanctions monitoring, review and any other administration fees imposed during the year. Banks need to review and offers competitive fee to attract new clients, especially during challenging times when international transactions may be delayed due to sanctions.

3. Impact of the Ukraine war and sanctions

- Banks need to ensure strict compliance with sanctions imposed by the EU, us and other international bodies. This requires robust due diligence and enhanced Know Your Customer (KYC) procedures. To that extent real-time monitoring of transactions involving sanctioned individuals or business is crucial. AI-based systems could be

employed to flag high -risk activities and report suspicious transactions in compliance with AML directives.

- Reputation Management: In the light of potential reputation risks banks should enhance transparency in operation to avoid associations with sanctioned entities and develop a clear communication strategy to reassure international and local customers about their sanctions and ethical business practices.
- Banks need to diversify business and clients by focusing on attracting new customer from the European Union, Middle East and Asia to reduce reliance on any single market. This suggests expanding the range of financial services, including wealth management digital banking green fiancé to appeal to a broader client and capture new market opportunities.

4. Training

- Enhancing Employee Training and Efficiency: Ongoing training for banking institution employees on related regulation, AML and KYC process is essential to ensure compliance and minimize the risk of errors. Providing employees with advanced digital tools to automate routine tasks, allowing them to focus on more critical client facing issues and compliance related activities. The training of employees to prioritize customer experience and minimize inefficiencies during process like account opening, fee assessment or compliance checks while ensuring regulations are adhered to is crucial.

5. Improving Operational Efficiency

- The need to streamline back-office operations by adopting automation, reduce manual processes, and hence save costs and enhance service speed was noted.

Conclusion

The banking sector in Cyprus is navigating a complex landscape shaped by geopolitical events especially the Ukraine war and international sanctions. This requires a delicate balance between compliance and customer service. Streamlining onboarding process, revisiting banking fees and enhancing employees efficiency through training and digital tools will be critical.