



CYPRUS FINANCIAL SERVICES FIRMS ASSOCIATION

ANNUAL GENERAL MEETING
7th March 2012

Agenda

- 16:00 – 16:15** Arrival and registration of Members
- 16:15 – 18:00** Approval of the annual reports on the Association's business for
the years 2008/ 2009/ 2010 and 2011
- Approval of the financial accounts for the years 2008/ 2009/ 2010
and 2011
- Auditors' appointment and remuneration for the next year
- Amendments of the Articles of the Association (**Special Business**)
- Election of the Board of Directors (**Special Business**)
- End of the General Meeting's proceedings

Cyprus Chamber of Commerce and Industry
7th March, 2012





***CYPRUS FINANCIAL SERVICES
FIRMS ASSOCIATION***

Annual Report
for the year ended on 31st December 2011



Members of the Board of Directors 2011

Yiannis Ioannou (until 31/08/2011)	Chairman
Andreas Koufkis	Vice-chairman
Anna Sofroniou	Organizational Secretary
Costas Toumpouris	Member
Petros Economides	Member

Honorary President

Louis Clappas

Executive Secretary

Maria Miltiadou

Legal Advisors

L. Papaphilippou and Co

Auditors

KPMG Limited

Vice-Chairman's Statement

In 2010, the global financial system focused on the effort to recover from the financial crisis of the 2008-2009 period, while European markets have experienced significant disruptions as a result of concerns regarding the ability of certain countries in the euro-zone to support and/or refinance their debt obligations.

Financial markets have been negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe and the possibility of one or more sovereign debt defaults. The confidence crisis that has been emerging in each country, starting from Greece and then Ireland and Portugal, posed an imminent threat to European financial stability, as well as to the single currency's credibility, and led to a wide range of European initiatives for the establishment of new fiscal rationalization and management institutions.

In 2010, the international economy developed mixed trends. There was a slowdown in activity and an increase of unemployment in the largest economies (with the exceptions of China and India). In order to deal with this crisis, governments proceeded with a series of stimulus policy measures, which included liquidity-enhancing measures and state aid, aiming at boosting demand, reducing unemployment and avoiding further economic slowdown.

One of the most important developments of 2010 was the sovereign debt crisis in certain EU member states that erupted in May 2010, triggering major changes in the regime for the management of fiscal deficits, financial markets and, in general economic crises, at both European and global levels. The European Union, the European Central Bank and the International Monetary Fund were called to play a major role in the management of debt crises and their inevitable cross-border spill over effects on the countries' real economies.

During 2011 those risks have increased, despite various policy steps to contain the euro area debt crisis and banking problems. European policy makers have outlined significant measures to address the crisis issues and some of them have helped to improve market sentiment, but sovereign financing remained challenging and downside risks existed. The main concern was if funding challenges could result in a round of deleveraging by banks and if this could ignite an adverse feedback loop to euro area economies. Developments in the euro area also threatened emerging Europe and spilled over to other emerging markets. A lot of efforts have been made on building larger backstops for sovereign financing, assuring adequate bank funding and capital, and maintaining a sufficient flow of credit to the economy.

The euro area debt crisis had intensified further, requiring urgent action to prevent highly destabilizing outcomes. Sovereign bond yields in the periphery of the euro zone rose sharply, especially at short to medium maturities, inverting yield curves in the last quarter of 2011 and signaling increased concerns about financing and default risks.

Policy packages have been insufficient to contain adverse feedback loops, thus trapping some sovereigns in a “bad equilibrium” as long-term foreign investors shed exposures. Domestic institutions were unable to fill the gap, and the European Central Bank (ECB) became a critical support for peripheral sovereign debt through its Securities Markets Program (SMP). As the crisis intensified, it spilled from the periphery into the core with yields rising and spreads widening, including on the sovereign debt of Austria and France. As of end-2011, more than two-thirds of euro area sovereign debt had credit default swap (CDS) spreads of over 200 basis points. Ratings downgrades by rating agencies and negative outlooks across a wide range of euro area sovereigns have also contributed to the rise in yields.

With private funding markets for euro area banks under severe strain, including due to a lack of eligible collateral to conduct repo operations, the ECB took extraordinary steps to stabilize funding conditions. Measures included cutting reserve requirements, broadening eligible collaterals, and offering 3-year longer-term refinancing operations (LTROs) to mitigate the effects of funding stress on credit provision to the private sector, and provide an alternative to forced fire sales of assets. To alleviate dollar funding strains, the U.S. Federal Reserve and five other central banks reduced the cost of the existing dollar swap lines. While market functioning remained far from normal, several of these measures – most notably the 3-year LTRO – have had positive effects on market sentiment and funding conditions. Pressures on European banks have been escalated, reflecting the increase in sovereign stress and the closure of many private funding channels. To insulate banks from such negative shocks, global steps towards a more stable and less risky financial system have been made. The European Banking Authority (EBA) has initiated a process calling for 71 European systemic banks to reach higher capital ratios, and judged an €85 billion in additional capital that would be necessary to be raised, (excluding €30 billion already programmed for Greece), so as to reach a 9 percent core Tier 1 ratio for each bank and provide an adequate sovereign capital buffer.

Reflecting these developments, international stock markets, and indices developed mixed trends and differing returns, while international market volatility was reduced. The major European markets registered moderate gains in 2010, with many exceptions, mainly in countries facing more pronounced fiscal problems, while the US market recorded positive returns and emerging markets posted both positive and negative returns. In 2011 the US markets have increased their gains while at the same time European markets have dropped significantly. The course of international stock markets was primarily affected by the persistent financial crisis and the sovereign debt crisis, mainly in countries of the European periphery

Improving international developments in 2010 did not have the same effect on the course of the Greek and Cypriot capital markets due to the severe fiscal crisis and the economic downturn of Greece, which led in May 2010 to Greece’s entry in a financial support and fiscal adjustment program that was specified by the Memorandum of Understanding signed between Greece and the European Commission, the European Central Bank and the International Monetary Fund.

During 2010 the General Index of the Cyprus Stock Exchange fell by 33,93% and further extended its losses in 2011 by 71,95%. The ATHEX General Index posted negative returns in 2010 with a y-o-y change of 35,6%, and closed 2011 suffering an annual loss of 51, 9%.

All in all, the financial crisis experienced in 2008 and 2009, continued during 2010 and intensified in 2011, testing the limits of conventional and unconventional policy options available to policymakers around the world and forced for the restructuring of the European system of financial supervision, due the multitude of comprehensive and substantial changes in the regulatory and supervisory framework of the financial sector within the European Union.

In this highly volatile environment prevailing globally, the financial services sector in Cyprus strived to stay ahead of developments and serve its clientele as best as it could. Further more, the Cyprus Financial Services Firms Association through a series of meetings and other activities which are outlined in more detail in this Annual Report, endeavoured to promote the integrity and stability of the financial market in Cyprus and the professional reputation and ethics of our Members. The Board of Directors maintained a frequent and close cooperation with the supervisory authorities in Cyprus and Greece, which is one of the main objectives and goals of this Association.

Finally, on behalf of my colleagues on the Board of Directors, I would like to thank, our legal advisors L. Papaphilippou and Co, our auditors KPMG and the Cyprus Chamber of Commerce and Industry for their valued services and excellent cooperation. Last but definitely not least, I would like to thank all of our Members for their trust and continued support and I would like to ensure them that we will continue to pursue the Association's main goals and objectives with a view to further promoting the interests of our Members and the financial services industry in our part of the word.

Andreas Koufkis
Vice - Chairman

Annual Report 2011

Introduction

During 2011, the Board of Directors of the Cyprus Financial Services Firms Association (CFSFA) continued to pursue an active role. Its contribution in shaping the institutional, legislative and operational framework in Cyprus was evidenced by the numerous consultation meetings in which it participated.

More specifically, the major events, activities or functions in which CFSFA had an active role or participation during 2011, are outlined below:

With the aim of providing useful information about its actions, activities and results during the year 2011, the Board of Directors of the Cyprus Financial Services Firms Association, publishes the Annual Report for the year ended on 31 December 2011.

The Annual Report is comprised of four basic parts:

The first part focuses on the Association's internal management and organisational framework as recorded in the directives and decisions of the meetings of the Board of Directors.

The second part includes a review of the goals set for the year 2011 as recorded in the decisions of the Board of Directors meetings.

The third part includes the objectives set for the year 2012.

The fourth part includes the following annexes:

- Permanent Steering Committees (Annex 1)
- Meetings of the Board of Directors (attendance list) (Annex 2)
- List of Members (Annex 3)
- Annual Balance Sheet and Income and Expenditure Statement for the year ended on 31 December 2011 (Annex 4)

1. Organization - Management

Part 1

1.1. Organizational Framework

The Cyprus Financial Services Firms Association (CFSFA) is governed by its Board of Directors, whose members are elected by member Investment Firms (IFs). CFSFA is a partner association of CIFA (Convention of Independent Financial Advisors).

During 2011, CFSFA employed one person on a full time basis, namely its Executive Secretary. The operations of CFSFA are divided into the following categories:

(a) General meetings of the Association

15 March 2011: General Meeting for the Members of the Association, who are Members on the Cyprus Stock Exchange and Athens Stock Exchange in reference with an invoice sent by HCMC to all Members of ASE established in Cyprus.

(b) Meetings of the Board of Directors

Between January 1st and December 31st 2011, four (4) Board meetings took place. An attendance list for the member of the Board of Directors is provided in Annex 2 of the present annual report.

(c) Representation in Committees

Officers of the Association, participate in the following committees:

- Financial Ombudsman Board of Directors
- Advisory Authority for Combating Money Laundering.
- Administrative Committee for the Investors' Compensation Scheme, for Customers of CIFs and other IFs.
- Administrative Committee for the Corporate Governance Code at the Cyprus Stock Exchange.
- Advisory Committee of the FTSE/CySE 20.

(d) Participation in meetings on a national level

Ministry of Finance:

Three meetings took place, on May 24th and 31st and on November 29, 2011 regarding issuances of Government Registered Development Stocks and the commissions for the CIFs. The meeting took place on May 24th 2011, was held under the auspices of former Minister of Finance, Mr Charilaos Stavarakis.

House of Representatives

Committee on Legal Affairs: Three meetings took place, on November 2nd, 21st and 28, 2011 regarding amendments on the Criminal Code Law. The Association was invited and attended the meetings.

Committee on Financial and Budgetary Affairs: A meeting took place, on November 1st 2011, regarding the introduced bill “Law on the management of financial crises of 2011”. The Association was invited and attended the meeting. “Law on the management of financial crises of 2011” was published in the Official Gazette on 30 December 2011.

Cyprus Securities and Exchange Commission (CySEC):

Two meetings took place, during 2011.

On March 1st, the Board of Directors held a meeting with the former Chairman of the CySEC, Mr George Charalambous and it was in reference with the invoices sent from the Hellenic Capital Market to the Cypriot remote Members of ATHEX. Once again, Mr Charalambous was involved in an effort to persuade the Chairman of the Hellenic Capital Market to withdraw the invoices.

On September 23rd, 2011, the Board of Directors held a meeting with Mrs Demetra Kalogirou who replaced Mr Charalambous as the new Chairman of the CySEC. During that meeting the following issues were discussed

- **Anti-Money Laundering Directive:** The Board of Directors requested once again the removal of the provision of the Directive referring to the obligation of the client to provide the CIF with a statement of his annual income and his assets. This is a still pending issue.
- **Margin Accounts/** under discussion at the European Parliament level is the transfer of this service from the ancillary part to the Investment services and activities part of the Law.
- **Omnibus accounts/** under discussion at the European Parliament level. A new Directive will regulate this issue.

Cyprus Stock Exchange: During 2011, five meetings were held with the Cyprus Stock Exchange, (January 14, June 3, September 14 and 20 and November 23) focusing on the following issues:

- **Development plans and new CSE services** / collaboration with regional Stock Exchanges, procedure for the sale of Stamp Duty from C.S.E, website form mobile phones, under study the possibility of listing a derivative product at the Athens Derivatives Exchange exclusively on Cypriot securities listed on the CSE, introduction of Market Maker institution and the Securities Lending proceed/ Short selling, promoting campaign of Global Depository Receipts.
- **Unbundling of Services:** clearing settlement and posting services in the market/ risk management/ clearing Fund

- **Cooperation with the Tel-Aviv Stock Exchange (TASE)/** a delegation composed by CSE members and Mr Toumpouris who represent our Association visited Israel on December 20, 2011 and examined the expansion of cooperation to new products such as the derivatives and ETF's.
- **Change of price tick:** The Association suggested the harmonisation of price tick to four decimals as at ATHEX.
- **Price fluctuation:** The Association suggested the harmonisation of the price fluctuation for the stocks that are dually listed at the CSE and ATHEX.

(e) Significant Correspondence:

Two letters were sent to Parliamentary Committees as follows:

- Parliamentary Committee on Legal Affairs/ the Associations' views on the proposed amendments on Criminal Law
- Parliamentary Committee on Financial and Budgetary Affairs/ the Associations' views on the introduced bill "Law on the management of financial crises of 2011".

The views of the Association on the introduced bill "Law on the management of financial crises of 2011" were also sent in writing, both to the Ministry of Finance and to the Cyprus Securities and Exchange Commission.

Three letters were sent to the Cyprus Stock Exchange re:

- (a) Public takeover-maximum daily fluctuation- modification of the Legislation: The major objective of this proposed modification is to give the chance to the participants to place orders up to the public offer price. The letter was also sent to the Cyprus Securities and Exchange Commission. This is still a pending issue.
- (b) Market Maker: the Association suggested that the CSE enforces the appointment of a Market Maker to all publicly trader companies whose shares do no meet the velocity requirements.
- (c) Limitation of price fluctuation limits in bond markets: the Association suggested the harmonization of price fluctuation limits in bond markets as in stock markets. This is still a pending issue.

Through a letter sent to the Athens Exchange, the Association put down its views, on ATHEX decision to change the price tick from three to four decimals. The same letter was also sent to the Cyprus Stock Exchange.

A letter was sent to the Commission for the Protection of Competition re conflict between “The Protection of Competition Law of 2008” and the Cyprus Securities and Exchange Commission Law, on “Takeover Bids Law of 2007-2009”. The same letter, on which the Association requested for the harmonization on the provisions on both Laws, was also sent to the Cyprus Securities and Exchange Commission. This is a still pending issue

(f) Circulars

In 2011, four Circulars were distributed to all Members of the Association, covering the following subjects:

- Application to appoint a representative
- Commissions on Auctions of GRDS
- Issuance of a new series of GRDS (two circulars on the same subject)

Thirteen Circular were forwarded during 2011 to the Members of the Cyprus and Athens Stock Exchanges, covering the following subjects:

- Renewal of annual authorisation
- Invitation from CSE for a meeting
- Invoice from HCMC
- Meeting next Tuesday
- Presentation from ASE
- Obligation to execute orders on terms most favourable to the client
- Presentation for IT and System Vendors
- Meeting with CSE
- Seminar re Target-2 and Decimals
- Briefing re the meeting with CSE on September 14th
- Briefing re decimals
- Re the meeting with CSE on September 14th (follow up)
- Re visit to Israel

(g) Educational / Training Seminars – Events

1 June 2011: Presentation – EUAs auction at ATHEX.

22 September 2011: Presentation – AS-Target 2 in force at ATHEX

22 September 2011: Presentation – Price tick to four decimals at ATHEX

28 November 2011: Presentation – Migration to the new Capital Gains Tax regime in the Greek Market.

1.2 Management

In the course of the year 2011, the following article of the Articles of Association was activated:

<p>Article 4 “...In the case where a representative ceases to be employed by the Member, the Member must notify the name of the replacement... was replaced.”</p>	<p>This provision was activated in the case of Hellenic Bank (Investments) Ltd. The Member appointed Mr George Groutides as its representative until 31/12/2013. Mr Groutides replaced Mr Yiannis Ioannou as of 31/08/2011. The Member nominated its new representative within the time limit provided for in the Articles of Association.</p>
--	--

<p>Article 9 (c) (vi) If the operational license is withdrawn by the competent Supervisory Authority</p>	<p>This provision was activated in the case of Fenway Services Ltd (03/10/2011)</p>
---	---

A list of the Members of the Association for the year ended on 31 December 2011 is provided in Annex 3 of the Annual Report.

2. *Review of the goals set for the year 2011*

Part 2

2.1 Promotion and support of the Members interests

Accomplished through the participation of the Board of Directors in meetings at a national level, as well as through the submission of reports, petitions and memorandums before the Ministry of Finance, the House of Representatives, the Cyprus Securities and Exchange Commission, the Cyprus Stock Exchange, the Athens Exchange, the Hellenic Capital Market Commission, and other Authorities.

2.2 Participation in the Advisory Authority of MOKAS

Accomplished through the participation of Mr Andreas Koufkis, as a member, at the Advisory Authority for Combating Money Laundering.

2.3 Participation in the Financial Ombudsman Board of Directors

Mission accomplished. The former Chairman of the Association, Mr Yiannis Ioannou was appointed by the Members of the Council of Ministers as the representative of all CIF's in the Financial Ombudsman Board of Directors. After Mr Ioannou resignation, the Members of the Council of Ministers, appointed Mr Andreas Koufkis for the place.

2.4 Seminars and other events

Four presentations have taken place in cooperation with the Athens Exchange in June, September and November 2011.

3. *Plan of actions for the year 2012*

Part 3

3.1 Promotion and support of the Members interests

The Board of Directors will continue all actions needed to accomplish its target of promoting its Members' interests. The main aim of the Board of Directors remains the frequent and close cooperation between the Association and the regulatory authorities in Cyprus and abroad. Furthermore, the Board of Directors places great importance to the continuous upgrading of its internal organisation in order to be able to deal in a timely fashion, effectively and efficiently, with its increasing responsibilities for the Members of the Association.

3.2 General Meeting for the year 2012

The Annual General Meeting for the year 2012 will be held by the end of March 2013.

3.3 Publications

By the end of March 2012, a handbook for the clients of CIFs, informing them about the Financial Ombudsman in Cyprus, will be available both in Greek and in English.

The handbook for the Investors' Compensation Fund for clients of CIFs will be available both in Greek and in English, when the revised edition for the Rules and Regulations of the ICS will be published.

Permanent Steering Committees

In order to best serve the needs of its Members and operate efficiently and proactively, the Association has established the following permanent internal Advisory Committees.

1. **Committee for Legal Affairs**

During 2011, the Committee examined two proposed bills issued by the Ministry of Finance and one consultation paper issued, by the European Union (Central Securities Depositories and on the harmonisation of certain aspects of securities settlement in the European Union)

2. **Educational / Training Committee**

The Committee was activated on four cases, for the organization of four seminars.

Meetings of the Board of Directors

Attendance List

Between January 2011 and December 2011, four (4) meetings of the Board of Directors took place.

Attendance to the meetings was as follows:

Yiannis Ioannou	(Chairman)	2
(Two of the Board of Directors meetings, took place after Mr. Ioannou resignation)		
Andreas Koufkis	(Vice-Chairman)	4
Anna Sofroniou	(Organisational Secretary)	3
Costas Toumpouris	(Member)	4
Petros Economides	(Member)	3

List of Members for the year ended on 31 December 2011 (alphabetical)

1. Alfa Capital Holdings (Cyprus) Limited
2. Alpha Finance A.E.Π.E.Y.
3. Argus Stockbrokers Limited
4. Atlantic Securities Limited
5. Atlas Capital Financial Services Ltd
6. Cooperative Central Bank Ltd
7. Eurobank EFG Equities A.E.Π.E.Y.
8. FXPRO Financial Services Ltd
9. Global Capital Securities & Financial Services Ltd
10. Hellenic Bank (Investments) Ltd
11. IronForex Limited
12. Marfin CLR (Financial Services Ltd)
13. Mega-Equity Securities and Financial Services Ltd
14. P.I.Provident Investments Ltd
15. Prochoice Chrimatistiriaki Ltd
16. Renaissance Securities (Cyprus) Limited
17. Reserve Invest (Cyprus) Ltd
18. Sharelink Securities and Financial Services Ltd
19. TD Investments Limited
20. The Cyprus Investment and Securities Corporation Limited
21. UniCredit Securities International Ltd

22. United World Capital Limited
23. WS Financial and Investment Services Limited