



Cyprus Financial Services Firms Association

Annual Report 2015

The year's Assessment

2015 was the year that demonstrated the fragility of euro with visible risk for catastrophic consequences not only for the European but for the global economy as well.

The uncertainty that prevailed during the first half of the year compared to the political situation at the time in Greece and the scenarios of output of Greece of the euro zone were more than enough to shake the integrity of the common European currency.

Although tail risks were finally averted thanks to the agreement between Greece and the other euro countries on a third financing programme that covers Greece's needs until 2018, this episode reaffirmed the need for the European Central Bank, to complete its Monetary Union.

Apart from "Grexit", a variety of other events marked the global economy the year under review, such as the degradation of Russia's credit rating from Standard & Poor's, the scandals erupted to HSBC and Deutsche Bank in regards to money laundering and terrorist financing, the dip in the stock markets and the oil market as a result of concerns for the future of the Chinese economy etc.

The instability in Greece also records the capital controls, a short-term bank holiday and the suspension of stock trading on the Athens Exchange for a long time.

Athens Exchange remained closed for a time period of more than a month and on its reopening on August 3rd 2015, the Composite Index recorded a dramatic drop of 16, 23% on one day while the market capitalization fell by €10 billion. Even though the Exchange reopened, restrictions on stock purchases for Greek investors remained in force until 9 December 2015, negatively affecting trading activity.

The Composite Index of the Athens Exchange suffered a year-on-year drop of 23.58%. The key features of the markets were high price volatility and the decrease in transactions by 39.34%

The financial impact for Cyprus Stock Exchange was also important. The CSE's revenue decreased by 34%, which corresponds to both the transactional activity and revenue obtained from ASE, in the framework of the common trading platform.

For Cyprus, 2015 was an important year, during of which substantial progress has been achieved towards the completion of the economic adjustment programmed with the troika.

The Cyprus economy returned to positive growth, at 1.6% and in parallel with the reduction of the budget deficit of 0.5% of GDP the confidence reverted both locally and internationally. Unemployment stood at 15.5% versus 16.1% in 2014, reflecting trends of de-escalation. The decrease of unemployment rate has resulted in the increase of contributions to Social Insurance Funds by 2.4% compared with the previous year.

The progress achieved, is of particular importance, because it occurred in a context of a global political and economic instability as mentioned before and translated into a vote of confidence for the economic recovery of Cyprus and culminated with the return of Cyprus in the international bond markets.

During the year under review and in order to meet its long-term financial needs, the Government proceeded with a total value of bonds issued, amounted to €205 million.

More specific, syndicated versions of two Eurobonds totaling €2.000 million were issued. The first guaranteed issued in May 2015 and was extended had a nominal amount of €1.000 million and nominal interest rate performance 3.875% (4.00%). The second one was in November of 2015 and involved a 10-year guaranteed Eurobond which had a nominal amount of €1.000 million and nominal interest rates 4.25%.

Cyprus also continued the six-year bond issued, specifically designed for naturalization purposes with the possibility of early prepayment and escalating interest rate, depending the time period the investor would have it in his possession. The total value of the six-year bonds amounted to €205 million for 2015.

The short-term financing of the Government was covered almost entirely by the International Monetary Fund and the Emergency Liquidity Assistance.

Key role in the financial sector of Cyprus contributed the developments in the banking sector. The restrictive measures on the capital controls were lifted completely in April 2015. However, the problem of non-performing loans has not been eliminated despite the adoption by the Parliament of the legislation which relates to insolvency, foreclosures and the sale of loans, matters which directly affect the banking sector.

The stock market in Cyprus also remained at very low levels compared to the years before 2013. A factor which contributed to the Stock Exchange's downward trend was undoubtedly, the general depression on a global and European level along with the feeling of uncertainty in Greece, due to the common trading platform between the two Stock Exchanges.

The CSE General Index exhibited a downward trend with a negative year-on-year change of 20.9% compared to the year end of 2014. The total volume of trading in the CSE was around €150 million in 2015, an increase of 100% compared to €75 million in 2014.

The Cyprus Investment Firms Sector did not remain unaffected by the economic recession that prevailed both locally and internationally, although the supervised CIFs form CySEC exceeded 550, during 2015. Besides the financial implications, CIFs had to face a number of changes in issues of legislative framework.

The 4th Directive of the European Union 2015/849/EC (Fourth EU Directive) came into effect in June 2015 reinforcing existing rules on anti-money laundering and countering terrorist financing. EU countries will have two years to implement the rules contained in the Directive into national laws.

As a member of the National Advisory Authority of Combating Money Laundering, the Association participated in the consultation process of the Fourth Directive of EU. The Association is also represented by its Vice President Mr. Andreas Koufkis, in the National Risk Assessment in relation to Combating Money Laundering and Terrorist Financing.

The Fourth EU Directive encompasses a number of important changes, such as a wider definition for politically exposed persons with the inclusion of domestic PEPs, the inclusion of Tax Crimes in predicate offences as well as gambling services and cash payments of €10,000 or more.

On February 2015, the Public Takeovers Bid (amendment) law of 2015 (L.7 (I)/2015) was published for the purposes of harmonization with the European Directive. On the basis of the Amendment Law individuals that intent to purchase securities in a company representing 30% or more of the voting rights in said companies, are exempt from the need to submit a public take-over bid when the possession of the said securities is achieved due to the implementation of tools, authorities, and consolidation mechanisms according to Title IV of the Directive 2014/59/EU.

In late 2015, was put in force the full implementation of the Supervision Framework based on risk management (Risk Based Supervision Framework - RBSF). CIFs were categorized by CySEC, into high, medium and low risk, and according to their ranking it was decided the frequency and depth of monitoring.

2015, was the first year of the operation of the Financial Ombudsman of the Republic of Cyprus. The Association has played an important and decisive role during the previous years in promoting the establishment of the Financial Ombudsman, who was introduced with the aim of dealing with complaints by consumers against financial firms, and achieving out of court settlements in those cases.

The Association is being represented to the Board of Directors of the Financial Ombudsman, by the Vice President Mr. Andreas Koufkis.

Year under review

1. Significant issues

During 2015, there were two crucial issues that dominated the priority of the Board of Directors as follows:

Investors Compensation Fund for clients of CIFs: The Chairwoman and the Secretary General, represent the Association in the Administrative Committee of ICF.

The Board of Directors, held a meeting under the auspices of the Minister of Finance, Mr Charis Georgiades as well as three meetings with the Chairwoman and the Vice President of the Cyprus Securities and Exchange Commission. All meetings focused on two parameters: the announcement of CySEC for the activation of the Investors Compensation Fund for clients of CIFs and the replacement of the legal framework governing the operation of the Investor Compensation Fund.

Activation of ICF: The Board of Directors set verbally and in writing the need for CySEC to intensify its investigations into all CIFs with immediate and decisive measures, so the problem should not be extended.

In addition to the above and its concerns about the impact of possible activation of ICF in more than one cases, for the viability of all CIFs, the Board of Directors also urged for the devastating consequences in the financial system of Cyprus the impact from abroad.

In relation to the activation of ICF and the Board of Directors meetings, held a Meeting for the Members of the Association on July 30, 2015.

Replacement of the legal framework governing the operation of the ICF:

In respect to those mentioned above, the Board of Directors set as immediate need the amending the legal framework of the ICF, the categorization of CIFs in low and high risk, depending on the nature of their business and the separation of ICF.

Capital Controls and a short-term bank holiday in Greece:

The Association had to deal with this issue due to the interconnection of economies and financial markets, taking into consideration the common platform that Cyprus Stock Exchange reserves with the Athens Stock Exchange.

The prolonged closure of banks in Greece for the protection of the Greek financial system due to the lack of liquidity, led the suspension of stock trading on the Athens Stock Exchange for a long time.

This fact and the capital controls that were established in the Greek market, created a crucial problem for the Members of the Association Members of CSE and ASE, concerning the clearing of transaction and the release of clients' money.

The Board of Directors acted immediately and in cooperation with the Minister of Finance whose support and intervention were catalytic, resolved the problem in a short time.

Furthermore, the Association set up a direct network with both the Athens Exchange and the Banking Institutions which acted as Custodians in Greece for the Members of the Association.

The Association's Members remained informed for all actions on a daily basis along with guidelines as to the actions needed to be taken.

2. Cyprus Securities and Exchange Commission

The Association's relations with CySEC remained good in the context of cooperation; understanding and most importantly keep pace in issues of supervision and fully compliance of CIFs to the applicable legislation.

In this context and in addition to the serious issues for which the Association had a number of meetings with CySEC, as mentioned above, during 2015 were submitted in writing views and suggestions on the Consultation Papers issued by the Commission.

Amendments in Legal Framework 2015

Alternative Investments Managers (amending) Law of 2015

**The Open –Ended Undertakings for Collective Investment
(amending) Law of 2015**

The Takeover Bids (Amending) Law of 2015

**Directive for the Continuance of Operation and the Operation of
the CIF Investor Compensation Fund**

**Directive of 2015 the delisting of securities from the CSE following
an application by the issuer**

3. *Cyprus Stock Exchange*

As of November 2015, the CSE became a full member of the Federation of Euro – Asian Stock Exchanges – (FEAS) and at the same year, CSE has signed an agreement with GXG Markets, a Danish regulated stock exchange, to implement a procedure of mutual cooperation and promote dual/parallel listings.

In response to the introduction of EMIR (European Market Infrastructure Regulation), the CSE signed in October 2015 a Memorandum of Understanding with Athens Stock Exchange. Under the MoU the two parties undertake to examine a furthering of their cooperation, whereby ATHEXClear (Athens Clearing House), as a licensed EMIR Central Counterparty (CCP) will assume CSE's Markets clearing. Under this new agreement, it is believed that the CSE will have an opportunity to attract new investors and intermediaries through upgrading of its clearing process.

As of April 2015, the CSE abolished the Parallel, the Investment Companies, the Major Projects and the Shipping Markets, in order to further upgrade the Stock Exchange and to be in line with modern developments in the European markets.

The Association's relations with CSE remained good in the context of cooperation. In this context, **Members of the Board of Directors represent the Association in the Administrative Committee for the Corporate Governance Code at the Cyprus Stock Exchange, the Advisory Committee of the FTSE/CySE 20 and the Risk Management Committee/Athens Stock Exchange.**

The Association

Introduction

Cyprus Financial Services Firms Association (CFSFA) is a non-profit professional body representing the interests of the Financial Firms industry and is supported by subscriptions from its Members.

CFSFA is a partner association of CIFA (Convention of Independent Financial Advisors) and an Associate Members of the Cyprus Chamber of Commerce and Industry.

Our mission is to pursue an active role in shaping the institutional legislative and operational framework in Cyprus, promoting the interests and cooperation of Members with governmental bodies, the House of Representatives, the Ministry of Finance and most importantly the Cyprus Securities and Exchange Commission.

Organizational Framework

Board of Directors: The Cyprus Financial Services Firms Association (CFSFA) is governed by a Board of Directors, whose members are elected by Member Investment Firms (IFs). Honorary President is a non-voting member of the Board.

In 2015, the Board of Directors consisted:

Anna Sofroniou/Chairwoman
Andreas Koufkis/Vice-chairman
Peter Economides/Vice-chairman
Marios Hadjiyiannakis/Secretary General
Loizos Loizou /Organizational Secretary
Michael Xiouros/Treasurer
Charalambos Assiotis/Member

Louis Clappas/Honorary President

Executive Secretary: CFSFA employs one person on a full time basis, namely its Executive Secretary who among others, manages the running of the day-to-day activities of the Association, makes recommendations to the Board regarding the Associations internal organization, and reports on major issues of its operation.

Steering Committees

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

- Legal Committee
- AML and Regulatory Compliance Committee
- HR and Training Committee

Within the framework for the continuous professional training of persons in the public register of CySEC, the Association held a series of seminars in English and Greek

Association's Seminars 2015

July 3rd	MiFID II (Greek)
July 4th	MiFID II (Greek)
July 11	Financial Ombudsman
September 11	AML & Market Abuse
October 8	MiFID II (Greek)
October 16	AML (English)
October 19	AML (English)
October 20	AML (Greek)
October 21	AML (Greek)
October 23	AIFs (English)
October 24th	AIFs (English)

Members of the Association

Eligibility for Membership to the Association is reserved for legal entities that are authorised by any Supervisory Authority of a member state for the provision of investment services as well as Banking Institutions and Custodians. In alphabetical order, the Members of the Association are the following:

	<p>3, Themistocles Dervis Avenue Julia House, 4th floor, 1066 Nicosia</p>
	<p>ALPHA FINANCE A.E.II.E.Y. 5 Merlin street, 10671 Athens, Greece</p>
	<p>25 Demosthenis Severi Ave. Metropolis Tower 1st & 2nd Floor 1080 Nicosia</p>
	<p>2, Ioanni Grypari Street, 1090 Nicosia</p>
	<p>19 Promachon Eleftherias, Agios Athanasios, 4103 Limassol</p>

	<p>10 Filellinon & 13 Xenophontos 10557 Athens, Greece</p>
	<p>FXTM Tower, 35 Lamprou Konstantara str Kato Polemidia, 4156 Limassol</p>
	<p>1, Karyatidon Street 4180 Ypsonas, Limassol</p>
	<p>50 Arch. Makarios III Avenue Alpha House 1st Floor 1065 Nicosia</p>
	<p>31, Kyriacou Matsi Avenue 2nd floor, 1082 Agioi Omologites, Nicosia</p>
	<p>2 Iapetou, 4101 Agios Athanasios, Limassol</p>
	<p>26 Vyronos Avenue CLR House, 1096 Nicosia</p>

	<p>42 - 44 Griva Digenis Avenue 1080 Nicosia</p>
	<p>57, Spyrou Kyprianou Avenue Frangkou Premises, 1st Floor - Office 102, 6051 Larnaka</p>
	<p>27 Pindarou Street Alpha Business Center 8th Floor, CY-1060 Nicosia</p>
	<p>6, Theodoki street 1055 Nicosia</p>
	<p>27 Pindarou Str, Alpha Business Center, 1st Floor, Block B, 1060 Nicosia</p>
 	<p>154 Lemesou Ave. 2025 Strovolos, Nicosia</p>
	<p>12 Mikynon Street Megaron Lavinia, 1st Floor, 1065 Nicosia</p>