

Annual Report 2016



CYPRUS

FINANCIAL SERVICES

FIRMS ASSOCIATION

The year's Assessment

“Brexit” and the presidency of *Donald Trump* were the two political changes of **2016** which dominated not only the European but the global economic prospects as well.

The outcome of the UK referendum in June 2016, created uncertainty not only about the UK's economic outlook, but also once again, about the integrity of the common European currency. In financial markets, the most notable response to the referendum outcome was a sharp depreciation of the sterling.

The exchange rate of the euro was broadly stable in nominal effective terms. Against the US dollar, the euro was remarkably stable during most of 2016 but declined towards the end of the year. A weakening of the euro against the Japanese yen was partially compensated for by an appreciation against the sterling.

Later in the year, in November, the outcome of the US election brought a shift in expectations about the future policies of the incoming US administration, which led to another bout of uncertainty. In the United States, the economic activity slowed in 2016.

2016 started with a significant decline in global equity markets as developments in China sparked global growth concerns. In China, growth stabilised in 2016, supported by strong consumption and infrastructure spending. Despite the relatively large movements during the year, the euro area equity market remained broadly unchanged; with the broad EURO STOXX index increasing by around 1%. Euro area government bond yields were lower overall in 2016 than in 2015.

The world economy continued to recover gradually in 2016, although at a slightly lower rate than in the previous year. Economic activity only gathered pace in the second half of the year, particularly in emerging market economies. Overall, global GDP growth remained below its pre-crisis rates.

The Greek economy remained weak and fragile in 2016, amidst a climate of uncertainty that increased in certain periods, as it was affected not only by the progress of the Greek economic adjustment programme and Greece's local vulnerabilities, but also by the instability prevailing in the international economic and political environment.

The Greek economy showed positive growth in the second half of the year and was marked by increasing employment and reducing unemployment. Although the capital controls continued, the pressures on the banking system in 2015 eased in 2016 despite the rising NPLs across the Greek banking system.

The Composite Index of the Athens Exchange closed at 643.64 units, registering a slight year-on-year increase of 1.95%. Trading activity in the equities market of the Athens Exchange was reduced in 2016 by -21.28% year-on-year.

For Cyprus, 2016 was a milestone year as on March, the economic adjustment program was completed, utilizing only about $\frac{3}{4}$ of the credit available, demonstrating that Cyprus has set a solid foundation for returning to the international financial markets. In May 2016, the government debt credit rating for Cyprus, as reported by S&P, was revised upwards and was one notch away from “investment grade”.

The Cyprus economy continues to show a trend of recovery, with positive growth for a second consecutive year, recording an increase of 2.8% an achievement that occurred in a fluid economic environment, given the geopolitical developments in the surrounding area of Eastern Mediterranean, including the immigration problem and economic instability (Brexit).

In July 2016, Cyprus proceeded with a 7year EU bonds guaranteed (EMTN) with a syndicated version nominal height €1000 million and with nominal interest rate of 3.750%. This issued was crowned with success, as it was invoiced with the lowest performance and lower nominal interest rate ever reached by the Republic in a Eurobond issue.

Cyprus also continued the six-year locally issued bond programme , 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 €283 million for 2016 recording a 38% increase compared to 2015.

The financing needs of 2016 included needs arising for re-purchasing of local bonds covered by the EMTN issued and to a lesser extent by issuing bonds in the domestic capital markets.

The stock market in Cyprus continued to reflect the negative effects of the financial crisis in recent years.

The CSE General Price Index recorded a downward trend and closed at 66.41 units, recording an annual drop of 1, 97%.

The total volume of CSE transactions in 2016 recorded an annual increase of 104.23%, compared to 2015. However, this significant increase was due to 8 transactions of bond liquidation that took place in March, which constituted 67.32% of the total volume of CSE transactions for the year.

The Banking sector continues to play a crucial role in developments in the wider economy of Cyprus.

The country's largest lender, Bank of Cyprus, after fully repaying the Emergency Liquidity Assistance in January 2017, listed its shares on the same month, in the London Stock Exchange. Furthermore, it has returned to the international capital markets through a successful Tier II debt issue.

The banking sector is still facing the problem of nonperforming loans.

The Cyprus Investment Firms as a part of the financial sector, together with the tourism and shipping sectors played a decisive role in the recovery and development of the Cypriot economy.

2016 was a time race year for CIFs as it brought them closer to their harmonization with the EU Fourth Directive on Money Laundering and Countering terrorist financing and the adoption of the revised European Directive MiFID II which comes into operation in January 2018.

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 by its Vice Presidents Andreas Koufkis and Aris Gregoriades.

The Association is also represented by Mr Koufkis in the National Risk Assessment in relation to Combating Money Laundering and Terrorist Financing.

From a legislative point of view, the 4th European Directive on the Prevention of Money Laundering and Counter Terrorism, which inter alia will oblige supervised entities to identify and assess the risks that may arise from such actions and to apply appropriate preventive measures, will be transposed into national law by 2017. The amending Law on The Prevention and Suppression of Money Laundering Activities was published in 2016. The Directive on the Prevention of Money Laundering Directive DI144-2007-08 of 2012, was also amended by the Directives DI1414-2007-08 (A) and DI144-2007-08 (B) of 2016, with regard to increased due diligence measures and customer identification procedures for remote customers. The Association, through its representatives to the National Advisory Authority of Combating Money Laundering put in writing its views in regards to the establishment of Central Registers for beneficial owners and Trusts. For the Association, the definition of the “beneficial owner” was also an important issue. This is defined to be 25% minimum ownership of a company, in accordance with the provisions of European Directive adopted and other Member - States. The Association’s request has been accepted by MOKAS.

As for the European Directive MiFID II, this is the single most important European regulatory change, as it is expected to radically alter the financial landscape. Among other things, it will limit over-the-counter transactions and strengthen the CIFs’ corporate governance code. The draft Law is expected to be adopted by 2017. MiFID II also provides for increased powers for national supervisors in terms of product governance and intervention powers in cases where products are deemed to pose significant risks to investors.

With regards to supervision, all supervised entities have been set under the umbrella of its Risk Based Supervision Framework. Through the use of this framework, which was implemented at the end of 2015 and was utilised in preparing the plan for inspections of 2016, the focus is placed on those areas and entities that pose the most important risks.

The Market Abuse Law of 2016 (L.102(I)/2016) was published for the necessary harmonization, where applicable, with European Regulation (EU) 596/2014 on Market Abuse. The Regulation 596/2014 establishes a single regulatory framework for abuse of privileged information, unlawful disclosure of privileged information and market manipulation (“market abuse”). It also includes market abuse prevention measures to safeguard the integrity of financial markets in the European Union and to strengthen investor protection and trust in these markets. When L.102(I)/2016 came into force, the Insider Dealings and Market Manipulation (Market Abuse) Law of 2005 (L.116(I)/2005) and all the CySEC Circulars issued pursuant to this Law were abolished.

On March 18 2016, the Recovery of CIFs and Other Entities under the supervision of CySEC and Related Issues Law of 2016 (L.20 (I)/2016) was adopted, which aims to harmonize national legislation with certain provisions of Directive 2014/59/EU establishing a framework for the recovery of investment firms. For the same reason and in addition, on 18 March 2016, the Recovery and Resolution of Credit Institutions and Investment Firms Law of 2016 (L.22 (I)/2016) was adopted. Full harmonization with European Directive 2014/59/EU, - through the enactment of the Law, as well as the Deposit Guarantee Scheme and Resolution of Credit and other Institutions Law (L.5(I)/2016), provides sufficient tools to effectively address unhealthy CIFs both in Cyprus and across borders, in order to minimize the negative effects in case of insolvency of Institutions.

On December 2016, the Law on Criminal Sanctions for Market Abuse of 2016 (L.136 (I)/2016) was published. This Law, which does not fall within the competence of CySEC, regulates the criminal aspect of infringements in relation to market abuse. The said Law concerns, inter alia, the following issues: (a) It establishes criminal sanctions in respect of insider dealing, market manipulation and unlawful disclosure of confidential information. (b) It defines serious cases of insider trading, market manipulation and unlawful disclosure of

confidential information. (c) It introduces provisions for incitement and synergy in the conduct of the above criminal offenses. (d) It introduces provisions for attempted abuse of privileged information market manipulation.

2016, was the second 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 2016, there were two crucial issues that dominated the priority of the Board of Directors as follows:

(a) ESMA/ «speculative products»

In July 2016, the President of the European Securities and Markets Authority (ESMA) Mr Steven Maijoor visited Cyprus for the first time.

His visit took place at a time when Cyprus focuses the attention of the international financial community in relation to «a number of Cyprus-based investment firms offering to retail clients CFD, binary options and other speculative products that are operating throughout Europe on a cross-border basis».

The Chairman and the Treasurer of the Association held a meeting with Mr Maijoor on 6 July 2016 during of which they reported strong concerns for the negative image created for Cyprus because of these reports, noting that only one member of the Association has encountered some issues that have been resolved in full cooperation with the Cyprus Securities and Exchange Commission.

In response, the President of ESMA pointed that protecting investors is one of ESMA's core objectives and the growth in the sale of these high-risk products has been a source of consumer detriment and ESMA has sought to raise awareness by warning investors about these products.

It is noted that during 2016, CySEC imposed administrative fines or reached settlement agreements with eight Firms, totaling €2,072,000. It has also suspended the license of one CIF.

(b) Leak of Mossack Fonseca Documents or ‘Panama Papers’

Regarding Mossack Fonseca's leaked documents, which appeared on the internet, more commonly known as “Panama Papers”, the Association's Board of Directors held a meeting with CySEC and requested for immediate actions. In this context CySEC collected information from about 400 supervised entities, out of which about 60 entities reported that their clients had and/or still have a business relationship with Mossack Fonseca and/or were included in the list of Panama Papers. Out of these approximately 60 supervised entities, additional

information has been collected from CySEC and for one CIF, CySEC has carried out onsite inspection.

2. Other issues

(a) Investors Compensation Fund for clients of CIFs: The Associations' Chairman Mr Alkis Loizides and the Secretary General Mr Marios Hadjiyiannakis were elected as representatives of IFs in the Administrative Committee of ICF, during the AGM which took place on April 21st of 2016.

(b) Privatization of CSE: The Association's Board of Directors held a meeting with the Commissioner of Privatizations Mr Constantinos Herodotou, with regards to the Government's decision for the privatization of the Cyprus Stock Exchange. The Association's position is when the privatization takes place, the Government to allocate a percentage of the share capital to Members of the CSE.

(c) Shareholders register/ CSE: The Association requested a legal opinion from the Commissioner for Personal Data Protection, on whether the law prohibits the release of the list of shareholders of listed companies from CSE, based on the percentage of participation and not just alphabetically. The Commissioner considered that the relevant processing is provided for in Law or Regulations and therefore is perfectly legal. Relevant reference is included to the Annual Report of the Commissioner for 2016.

3. Cyprus Securities and Exchange Commission

The Association's relations with CySEC remained healthy in the context of cooperation and understanding of the interplay of various issues such as those of supervision and full compliance of CIFs to the applicable legislation.

In this context and in addition to a number of meetings with CySEC, during 2016 the views of the Association suggestions on the Consultation Papers issued by the Commission were submitted in writing.

Amendments in Legal Framework 2016

The Cyprus Securities and Exchange Commission (amending) Law of 2016 (L.109(I)/2016)

The Investment Services and Activities and Regulated Markets (amending) Law of 2016 (L.8(I)/2016)

The Transparency Requirements (Transferable Securities for Trading in a Regulated Market) Law of 2016 (L.35(I)/2016)

The Public Offer and Prospectus (Amending) Law of 2016 (L.33(I)/2016)

The Open-Ended Undertakings for Collective Investment (Amendment) Law of 2016 (L.52(I)/2016)

4. Cyprus Stock Exchange

The Association's relations with CSE continued to develop in a healthy manner in the context of cooperation and better functioning of the market. **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.**

During 2016, the Cyprus Stock Exchange (CSE) proceeded in agreement/partnership with the London Stock Exchange (LSE)/Unavista to version to interested legal entities, Legal Entity Identifier Code (LEI).

At the same time and in order to facilitate parallel listing in CSE and the London Stock Exchange, and in relation to Bank of Cyprus parallel listing on the CSE/LSE, the CSE introduced Depository Interests.

Six companies were deleted from the Regulated Market of CSE in 2016; there were no issues of Corporate Bonds.

In contrast, eleven new Companies were listed in the CSE Emerging Companies Market (ECM) and there were twenty issues of Corporate Bonds. Only two companies were delisted from the ECM.

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 February 2016, a new Board of Directors was elected during the Annual General Meeting of the Association as follows:

Alkis Loizides/Chairman
Andreas Koufkis/Vice-chairman
Aris Gregoriades/Vice-chairman
Athos Chandriotis/Secretary General
Loizos Loizou /Organizational Secretary
Marios Hadjiyiannakis/Treasurer
Marios Salides/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 2016	May 24 & 25	AML (English)
	September 23	Insider Dealing & Market Manipulation (English)
	September 29	Insider Dealing & Market Manipulation (Greek)
	October 14	The role and responsibilities of the non-executive members of the Board of Directors of CIFs (Greek)
	October 27	AML (Greek)
	November 18	UCITS-AIF service providers (English)
	November 25	MiFID II: The road ahead/ Essential Concepts, Review & Developments (English)
	December 9	MiFID II: The road ahead/ Essential Concepts, Review & Developments (Greek)

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.I.I.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>42 - 44 Griva Digenis Avenue 1080 Nicosia</p>

	<p>11, Florinis Street City Forum 1st Floor - Office 102, 1065 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>