

RUSSIAN BUSINESS IN CYPRUS POST 2022

Joint Alert by Brevia (Russia, UAE) and Raphael Legal (Cyprus)

Cyprus has historically been one of the most popular hubs for Russian capital. In 2021, foreign direct investment (FDI) from Russia to Cyprus totaled \$46 billion, with Cyprus receiving 73% of all Russian FDI. Cypriot entities were widely used by Russian businesses to structure both domestic and international ventures.

This changed drastically in 2022, when the EU began continuously adopting far-reaching sanctions against Russia. As a member state of the EU, Cyprus is obligated to enforce these European sanctions, creating challenges for the business activities of affected individuals and entities.

Even for non-sanctioned businesses operating in Cyprus can be significantly challenging.

This alert outlines the main hurdles that Russian-linked businesses may face in Cyprus and suggests certain potential solutions.

Setting up companies

1) Company registration

When it comes to establishing a company, the process remains generally unchanged for Russians. When submitting incorporation documents for company registration in Cyprus, the Registrar of Companies will conduct an investigation to determine if any Russian individuals involved are subject to sanctions. If any individuals are found to be sanctioned, the application for company registration will not be approved. As for non-sanctioned applicants, there are no formal restrictions, apart from this additional verification step, which may lead to delays in processing time.

2) Opening bank account

Although regulators and banks have not publicly issued formal guidelines, in practice, banks adhere to the following practices:

- Russian-linked corporate and private accounts are typically only opened if the individuals involved reside in the EU. Only one Cypriot bank has informally confirmed that it is prepared to consider opening an account regardless of the applicant's place of residence; however, any Russian link would still be considered a high-risk factor.
- For corporate accounts, Russian UBOs who do not reside in the EU are typically a disqualifying factor. However, some banks may tolerate such UBOs if they hold less than 25% of the shares.

• Account opening is also likely to be denied if the applicant has an active source of income in Russia.

• Projected transactions involving sanctioned jurisdictions, including Russia, are considered a high-risk factor and may lead to an account denial. Banks will assess factors such as source of funds, the nature of the business activities and whether the company or individual had links to any high-risk countries or regions.

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• Because each bank may have different internal risk policies, it is crucial to consult directly with banks for the most up-to-date and specific information regarding account opening eligibility.

Operating in Cyprus

1) Limitations on activities

EU sanctions prohibit certain business activities connected to Russia, in particular:

- Investments in certain Russian industries, including the energy sector;
- Accounting, tax, legal, and management consultancy services for Russian companies.

2) Reporting obligations

EU companies that are more than 40% owned by Russian nationals must report any transfers of funds exceeding €100,000 out of the EU under Council Regulation (EU) No 833/2014. In Cyprus, companies are required to submit their reports to the Ministry of Finance within two weeks after the end of each quarter.

3) Liabilities

As of now, violations of sanctions in Cyprus are punishable by fines of up to €100,000 for individuals and up to €300,000 for companies, or by imprisonment for up to two years.

Cyprus is in the process of drafting and enacting legislation to comply with Directive (EU) 2024/1226 by May 20, 2025. According to the EU Directive of April 24, 2024, EU member states will be required to introduce harmonized criminal rules for sanctions violations, with fines potentially reaching up to €40 million or 5% of the company's total worldwide turnover for legal entities.

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For individuals, criminal penalties will include imprisonment of at least five years for severe offenses. Specifically, offenses involving at least €100,000 in funds or economic resources related to specific financial violations will carry a minimum sentence of one year, while major sanctions breaches involving at least €100,000 in funds, goods, services, or transactions will result in at least five years of imprisonment. Additionally, violations concerning the provision of funds or resources to sanctioned entities will be punishable by a minimum of three years in prison. Notably, offenses involving EU military-listed items or dual-use goods will carry a minimum sentence of five years, regardless of the value involved.

4) Further limitations

At this stage, the EU has introduced 16 packages of anti-Russian sanctions. According to media reports, additional packages may be introduced in the future. Therefore, new restrictions could be implemented over time.

Redomiciliation of business out of Cyprus

Should regulatory limitations or other circumstances render maintaining a presence in Cyprus impractical, a business can be relocated. Cypriot legislation allows a company to be redomiciled—that is, moved to another jurisdiction.

For a company to be redomiciled, approval is required from regulators in both Cyprus and the destination jurisdiction. However, not all jurisdictions permit redomiciliation. In Russia, a foreign company can be redomiciled to one of the special administrative districts: Russkiy Island (Vladivostok) or Oktyabrskiy Island (Kaliningrad).

In Cyprus, the basic procedure for redomiciliation is as follows:

- a. Ensuring that the company's Memorandum of Association (MoA) permits redomiciliation;
- b. Preparing audited financial statements;
- c. Passing corporate resolutions approving the redomiciliation;
- d. Publishing a notice of intent to redomicile in Cypriot newspaper, followed by a three-month waiting period;
- e. Obtaining a legal opinion from the new jurisdiction confirming that its laws permit the redomiciliation of the company;
- f. Paying all outstanding fees and taxes and obtaining tax clearance;
- g. Securing consent from the Cypriot Registrar for redomiciliation;
- h. Obtaining a certificate of redomiciliation/incorporation in the new jurisdiction and filing it with the Cypriot Registrar and

- i. Obtaining a certificate of striking the company off the Cypriot corporate register.

For Russian-linked companies, an additional step is required: applying to the Sanctions Implementing Unit and obtaining approval for redomiciliation. This approval may be withheld if there is suspicion of sanctions circumvention.

Where regulatory limitations or broader business considerations justify a change in jurisdiction, companies may explore redomiciliation to a UAE free zone. The UAE does not fall within the scope of Russian counter-sanctions currently applied to EU Member States, and therefore, certain restrictions on transactions involving financial instruments or shares may not apply.

Cyprus Permanent Residence

As of now, Cyprus continues to allow the issuance of permanent residence visas for Russian nationals, including investor visas. The minimum investment requirement for the Fast-Track Process is €300,000, which can be made through:

1. The purchase of residential or non-residential properties, or by
2. An investment in the share capital of a Cypriot company that has a physical presence in Cyprus and employs at least five people.

At the same time, EU sanctions prohibit accepting deposits from Russian nationals exceeding €100,000.

Nonetheless, obtaining an EU permanent residence visa can be a supportive factor in the process of opening a bank account in Cyprus.

How can we help?

We help our clients to:

- Restructure company ownership and management in response to regulatory and operational developments;
- Restore company management where service providers have withdrawn support;
- Challenge company strike-offs and reinstate companies removed from the register;
- Facilitate company redomiciliation to the UAE or other suitable jurisdictions, where legally permissible and strategically appropriate.

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