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ASSOCIATION OF CYPRUS BANKS

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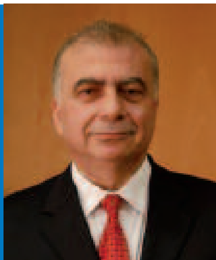

Dr Michael Kammas

At the time of writing this issue, banks in Cyprus are recording losses as a result of the Private Sector Involvement (PSI+) in the restructuring of Greek sovereign debt and of the prolonged depression in Greece. Even though Cypriot banks are operating in a challenging and volatile environment, the situation remains manageable and the banks are forging ahead with their recapitalization plans. In their efforts, they have as their allies the Ministry of Finance and the Central Bank of Cyprus. Furthermore, despite the mild recessionary conditions and the tough regulatory requirements, the banking sector continues to stand by its clients and provide support to the economy.

In the current issue of the "Insight", we present an analysis of the shadow banking system's role in the current financial crisis. Through articles contributed by collaborators, we present the challenges faced by Cyprus in the area of competitiveness and efforts to enhance it by drafting service standards to promote standardization as well as by the activities of the Cyprus Investment Promotion Agency. We also discuss the damaging effects that the Financial Transactions Tax will have on the prospects of Cyprus as a banking and financial services centre.

In addition, we outline various activities by banks which add value to clients, such as ensuring access to a bank account, protecting the value of customer relationship, responsible bank lending and promoting ethics. There are articles on local banking developments in Cyprus regarding the promotion of public-private partnerships to combat bank robberies, the amended property planning laws and the role of the local credit bureau in a time of financial crisis. Other articles in this publication include banking secrecy challenges, regulation of SEPA end-date migration and FATF revised recommendations.

We hope that you find this issue informative and, as always, we welcome your comments and suggestions.

Dr. Michael Kammas
Director General
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CONTENTS

The financial crisis and the shadow banking system 2
FATF revises its Recommendations 4
Ethics and the costs of 'Non-Compliance' 6
Responsible Bank Lending: A matter of concern to both Lenders and Borrowers 7
Ensuring access to a bank account: a benefit to consumers 9
Regulation on SEPA end - date Migration 11
The importance of Credit Bureaus in times of financial crisis and the role of Artemis Bank Information Systems Ltd in the Cyprus Banking Sector 12
Protecting the value of Customer Relationship 13
Bank Secrecy Challenges 15
Amended Property Planning Laws 17
Standardization in the Services Sector 18
CIPA Activities for the promotion of Cyprus as a Banking and Financial Services Center 19
Competitiveness is the main Economic problem of Cyprus 21
Closer cooperation to combat bank robberies 22
Financial Transaction Tax and the case of Cyprus 23

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ASSOCIATION OF CYPRUS BANKS

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The financial crisis and the shadow banking system

The financial crisis of 2007-2008 has opened a debate about the structure of the global financial system, the supervisory framework and the potential for systemic risks. Part of the discussion focuses on the shadow banking system and its possible contribution to the financial crisis. The last two decades shadow banking entities have become part of the financial system. New types of financial firms, created through financial innovation, and products, structured with the use of modern finance tools, allowed shadow banking entities to escape regulatory supervision as opposed to traditional banks. These entities and products were loosely regulated, poorly supervised and did not maintain any capital reserves.

A Financial Stability Board (FSB) Note (2011)[1] defines shadow banking as "credit intermediation involving entities and activities outside the regular banking system". Shadow banking comprises instruments, structures, entities and markets that, alone or in combination, replicate core banking activities without necessarily being subject to prudential regulations applicable for banking institutions. Among others, these include derivatives, securitization, special purpose vehicles (SPVs), credit debt obligations (CDOs), asset backed securities (ABSs), hedge funds and money market funds. Shadow banking entities escaped regulation primarily because they did not accept traditional bank deposits. As a result, many of these entities were able to take higher market, credit and liquidity risks without having to satisfy any capital requirements commensurate with those risks.

Before I further discuss the systemic risk implications of the shadow banking system, it is important to point out that bank-like transactions outside the banking sector should not be regarded as a bad thing. In fact, they offer benefits to both banks and investors by providing credit / liquidity and diversification respectively. Nevertheless, credit intermediation that occurs outside the regular banking system and the interactions between bank and non-bank activities, raise the possibility of either or both systemic risk and regulatory arbitrage.

Systemic risk. Non-bank credit intermediation involves four risk indicators[2]: (i) maturity transformation, (ii) liquidity transformation, (iii) imperfect credit risk

1. Source: FSB, Shadow Banking: Scoping the Issues – A Background Note of the Financial Stability Board, 12 April 2012
2. Source: FSB, Shadow Banking: Scoping the Issues – A Background Note of the Financial Stability Board, 12 April 2012

transfer, and (iv) leverage. Entities in the shadow banking system raise funds from suppliers (financial institutions), through short term or callable instruments (repos), which are then transformed (via securitization) into long term and less liquid assets. These entities are not subject to the same prudential regulation and are not supervised as regular banks. As a result, activities involving maturity transformation (short term liabilities to long term assets) and liquidity transformation (liquid liabilities to illiquid assets) within the shadow banking system, especially if combined with high leverage, create systemic risks. A withdrawal of deposit-like instruments (asset backed commercial paper, short-term repos) can create a modern run on banks which could undermine the wider financial system. Additionally, the utilization of non-deposit sources of collateralized funding and the credit risk transfer through securitization encourage high leverage, which in times of a steep fall in the value of collateral securities, leads to sudden deleveraging and fire sales of assets. Lastly, regular banks' provision of support or their investment in financial products issued by shadow banking entities, create interconnectedness between the two systems (regular and shadow banking). This enhances the pro-cyclical build up of leverage which can ultimately create asset price bubbles. During the financial crisis, the loss of confidence in the market led to a collapse in the value of collateral securities and ultimately to the abrupt deleveraging that followed.

Regulatory arbitrage. Entities operating in the shadow banking system are not supervised under the same regulatory constraints as regular banks. This is likely to create opportunities for arbitrage as regular banks can use shadow banking entities to increase leverage and circumvent regulatory or liquidity requirements, in response to stricter bank regulation. Regulatory arbitrage, as has been evident in the run-up to the financial crisis, increases credit and/or liquidity risk in the banking system. Despite the fact that the new Basel III regulatory framework addresses some of these issues, the incentive for regulatory arbitrage is likely to increase as the regulatory environment for regular banks becomes more rigorous and strict.

The complex and unregulated instruments, markets and entities that make up the shadow banking system have neither been properly regulated nor monitored for possible systemic or regulatory arbitrage risks. This has prompted various jurisdictions to begin monitoring the shadow banking system by collecting quantitative and qualitative information from a macro and micro perspective. The data collected include the size and growth rate of the financial assets in the shadow banking system in relation to the total debt, gross domestic product and size of the regular banking system (macro perspective), the scale of certain types of instruments or entities and counterparty credit exposure data of the regular banking sector (micro perspective). This information will assist authorities to determine how the shadow banking system is evolving over time and to identify possible spill-over risks to the regular banking system.

To achieve a more resilient financial system it is necessary to implement a regulatory framework for all components of the shadow banking system in order to capture the different business models, risk characteristics and contribution to systemic risk. Any regulatory measures imposed are likely to fit within the following four categories[3]: (1) banks' interaction with shadow banking entities (to reduce the spill-over of risks and the opportunities for regulatory arbitrage), (2) shadow banking entities (to reduce the risk they pose to the system), (3) shadow banking activities (to facilitate sound credit intermediation by addressing the risks affecting particular instruments, markets or activities), and (4) macro-prudential measures (to address systemic risk).

The financial crisis has revealed the growing expansion of the shadow banking system and the absence of any regulatory or supervisory framework. Since the financial crisis started there have been some efforts to regulate the shadow banking system, despite the fact that activities of the shadow banking entities fall outside the regular banking system. The Basel III framework recommends heavier risk weightings for securitization exposures, strict monitoring of off-balance sheet SPV activities and improved liquidity management. Also, the Alternative Investment Funds Managers Directive (AIFM) introduces new regulation on hedge funds and private equity funds. Additionally, there is an ongoing review of the derivatives trading, the structured products and securitization process. Despite these initiatives, considerable work should still be done on a coordinated global basis in order to increase transparency, to limit the build-up of risks within the shadow banking system and to restrict the spill-over effects to the regular banking system.

3. Source: FSB, Shadow Banking: Scoping the Issues – A Background Note of the Financial Stability Board, 12 April 2012

FATF revises its Recommendations

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In February 2012, the Financial Action Task Force FATF has revised its anti-money-laundering Recommendations, with the aim of strengthening global safeguards and further protecting the integrity of the financial system against the fight to combat money laundering and terrorist financing.

The Recommendations are better targeted and have been fortified, specifically in areas which are high risk or where implementation could be enhanced, including dealing with new threats such as the proliferation of weapons of mass destruction, improving transparency and better addressing the laundering of the proceeds of corruption and tax crimes. They also strengthen the requirements for higher risk situations and allow financial institutions and other designated sectors to apply their resources more efficiently by focusing on higher risk areas while there is more flexibility for simplified measures to be applied in low risk areas. Moreover the recommendations deal with the realities of technological development and the need for financial inclusion.

The key updates to the Recommendations are:

• **Beneficial Ownership:** The new Recommendations promote an improved transparency in beneficial ownership, to make it harder for criminals and terrorists to conceal their identities or hide their assets behind legal persons and arrangements. According to the Recommendations, financial institutions should first try to identify the natural persons who ultimately have a controlling ownership interest; but if there is doubt over whether such persons hold the beneficial ownership, or when no such natural persons can be identified, any other natural persons that may exercise control over the customer through means other than shareholding should be identified. If these measures fail to identify a natural person exercising such controls, the financial institution should then take reasonable steps to identify the natural person holding a senior management position.
Unlike the Third Anti-money Laundering Directive, (25%) in the revised Recommendations there is no numerical threshold for determining controlling ownership of a legal person. Each country has been left with the discretion to determine such threshold.

• **Political Exposed Persons:** The new Recommendations extend obligations on financial institutions to conduct enhanced due diligence to cover domestic PEPs, PEPs from international organisations and the family and close associates of PEPs.

• **Tax Crimes:** The inclusion of tax crimes as predicate offences for money laundering is one of the major additions in the updated Recommendations. This will bring the proceeds of tax crimes within the scope of the powers and authorities used to investigate money laundering.

• **Risk-based approach:** The revised Recommendations provide for an enhanced risk-based approach to identify, assess, monitor, manage and mitigate money-laundering and terrorist financing risks. The latter will enable countries and the private sector to apply their resources more efficiently by focusing on higher risk areas. Where higher risks are identified, enhanced measures are required to manage and mitigate those risks. Simplified customer due diligence measures may be allowed where lower risks are identified.

• **Third Party Reliance and Group-Wide Compliance Programmes:** The revised Recommendations provide greater clarity in relation to the circumstances in which financial institutions may rely on third parties to undertake due diligence and on the application of anti-money laundering and terrorist financing measures in foreign branches and subsidiaries. More specifically the distinction between an outsourcing and agency relationship has been clarified leading to a more flexible intra-group reliance, and for the level of country risk to be mitigated, if the third party is part of the same financial group which applies group-wide anti-money laundering and terrorist financing measures. The new Recommendations also require the implementation of group-wide compliance programme to a financial institution's foreign branches and subsidiaries.

• **Transparency requirements in relation to Beneficial Ownership:** There is a new imposition of the obligation for countries to establish mechanisms to record basic company information and to facilitate financial institutions and others to determine beneficial ownership and conduct appropriate customer due diligence. In relation to nominee

directors and shareholders, the Recommendations requires the disclosure of their status to the company registry, or for them to be licensed. As far as Trusts are concerned, the revised Recommendations allow countries to determine if a trust registry should be required, and focuses on the obligations of a trustee. One of the obligations of the trustees is to obtain and maintain adequate and accurate beneficial ownership information, including information on the identity of the settler, the trustee(s), and the protector (if any), as well as disclose their status as trustees when entering into a relationship with a financial institution.

• **International Cooperation:** More effective international cooperation including exchange of information between relevant authorities, conduct of joint investigations, and tracing, freezing and confiscation of illegal assets.

• **Financial Intelligent Units and Law Enforcement Authorities:** Better operational tools and a wider range of techniques and powers, both for the financial intelligence units, and for law enforcement authorities to investigate and prosecute money laundering and terrorist financing.

• **Wire Transfers :** The introduction of more rigorous requirements in relation to the information which must accompany wire transfers;

• **Financing of the proliferation of weapons of mass destruction:** Combating the financing of the proliferation of weapons of mass destruction through the consistent implementation of targeted financial sanctions when these are called for by the UN Security Council.

The revision of the Recommendations will facilitate national authorities to take more effective action against money laundering and terrorist financing at all levels - from the identification of bank customers opening an account through to investigation, prosecution and forfeiture of assets.

Being an international financial centre, Cyprus is highly cautious against illicit funds that could threaten its veracity. Several of the latest Recommendations have already been implemented in Cyprus. These include applying a risk based approach, enhanced measures for politically exposed persons to deter and detect corruption proceeds, and measures to fight the financing of proliferation. Furthermore due to the increased importance of 'transparency of beneficial ownership' the numerical threshold for determining controlling ownership of a legal person in Cyprus has been set at the lower 10% plus one share.

As the FATF calls upon all countries to implement these measures effectively in their national systems, the European Commission is taking immediate action to meet the new standards by their incorporation into the existing EU Directive.

In conclusion and as portrayed above, the new FATF Recommendations will enhance the arsenal of safeguards that countries can deploy to counter the evolving threats posed by money laundering, terrorist financing, and the financing of proliferation.

Ethics and the Costs of 'NON-COMPLIANCE'

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The persistent and unprecedented current financial crisis, as well as the scandals that have rocked the financial world starting with Enron and Worldcom at the beginning of the last decade and more recently with Societe Generale and UBS, have contributed both to a tightening of the regulatory environment in which financial service organizations operate, as well as to the introduction of new requirements relating to the way such organizations are run.

New regulations were aimed at strengthening the financial system as a whole, avoiding the excesses of the past. They targeted, amongst others, issues such as improving governance and risk management within organizations, tackling financial crime as well as improving transparency and consumer protection. Thus, over the past few years we have seen changes to regulations covering a wide range of areas such as remuneration, enhanced capital requirements , money laundering, data protection and consumer credit to name but a few. And there are more on the way.

In fact, in a recent global survey conducted by Ernst and Young[1], 654 senior retail bankers were asked to name the key challenges facing retail banks in the next five years. The increasing cost of regulatory compliance came second just after 'falling margins' and ahead of issues such as 'increasing competition for deposits', 'costs/income ratio' and 'pace of technological change'. The tighter regulatory environment often leads to a need for increased allocation of resources to compliance related activities with main items of expenditure consisting of staff and training costs, as well as a higher level of investment in new technologies to meet new regulatory requirements. These naturally have an effect on the bottom line of organizations.

Unfortunately all this has come at a time when financial services organizations are trying to minimize expenditure. It might therefore be very tempting for management to reduce their investment in areas of the business where such investment does not produce immediately measurable results. Adopting the above strategy could, however, prove to be a dangerous move. Although reducing compliance related expenditure may improve a business's bottom line in the short term, in the long term the costs of non-compliance may far outweigh any short term benefit.

The most easily quantifiable costs of 'non-compliance' are the penalties imposed by regulators. In the UK alone in 2011, the FSA imposed total corporate penalties of UK£56m and in addition large financial groups were

ordered to pay £160m in compensation to customers, a figure which was more than double the amount paid out as compensation in 2010[2].

Penalties are not, however, the only costs of non-compliance. Financial services organizations can face severe reputational costs too.

Both prospective customers and prospective investors may think twice before approaching an organization which has been fined for failing to protect client money, they may hesitate before dealing with organizations whose names hit the headlines for allowing dubious transactions to pass through due to weak anti-money laundering controls and they may balk at being associated with organizations involved in market abuse. Reputational costs can have more long term and far more damaging effects, as they can lead to a loss of confidence in the organization, reduction in its share price and in extreme cases it could even lead to the closure of the organization.

The reputational effect of regulatory sanctions for listed financial services firms was measured in an Oxford University study[3] which looked at all penalties imposed by the FSA and London Stock Exchange in the period 2001- 2011. What the study found was that, where the penalty involved misconduct in relation to customers or investors, such as for example, mis-statement of accounts or mis-selling of products, the announcement of a penalty had an adverse effect on the stock price which was 9 times greater than the penalty itself. This was considered to be the reputational damage which the study concluded was the most important consequence to a firm arising from the revelation of its misconduct. Interestingly, the study suggested that such reputational damage has increased since the beginning of the financial crisis a few years ago.

1.'Seismic changes are causing waves of opportunity-Views from the European retail banking industry'- Ernst& Young Nov 2011
2. Financial Times 2.1.2012 'Companies count cost of FSA crackdown'
3. Regulatory Sanctions and Reputational Damage in Financial Markets by John Armour, Colin Mayer, Andrea Polo -University of Oxford April 2011
4.The Importance of Ethical Culture: Increasing Trust and Driving Down Risks- Published 2010

All the above lead to the conclusion that compliance issues are critical to an organization and cannot simply be ignored. What then can organizations do to mitigate any costs of non-compliance? And is there a cost efficient way to do so?

In addition to the usual elements of effective compliance programmes, which include, amongst others, maintaining a proactive approach in assessing risks, providing training, monitoring and reporting, one of the most fundamental elements is the culture within the organization itself.

This culture is set by the board and top management, the so called "tone at the top." Thus, an organization's zero tolerance for issues such as fraud and corruption, as well as its promotion of ethical behaviour and strict compliance with regulations at all staff levels and during all business decisions, should be clearly communicated to all staff and to external parties too. The fact that fostering an ethical culture is beneficial to organizations is not just another abstract notion. It has been tested and it is supported by facts.

A survey[4] conducted in the United States by the Ethics Resource Centre tested various areas of misconduct including conflicts of interest, insider dealing, financial statement misstatements and bribery in organizations with both strong and weak ethical cultures. The survey defined a weak ethical culture as one where more emphasis was given on 'getting the job done' rather than getting the job done the 'right and ethical way'. In strong cultures on the other hand, ethics played a role in the actions, procedures, rewards and punishments of staff and management.

The survey revealed that the rate of misconduct halved in organizations with a stronger ethical culture, thus reducing all the costs associated with non-compliance mentioned above, such as fines and loss of reputation.

Moreover, the survey noted, that where the ethical culture was strong, employees had less fear of retaliation arising from whistleblowing and this resulted in an increase in the reporting of such misconduct to senior management, which in turn would allow the latter to become aware of and therefore better able to address the various problems.

Thus, in the final analysis, it is clear, that all organizations must recognize that fostering a strong and effective compliance culture is no longer a luxury, but has become a necessity. In today's financial world, failure to do so can prove to be fatal.

4.The Importance of Ethical Culture: Increasing Trust and Driving Down Risks- Published 2010

Responsible Bank Lending: A matter of concern to both Lenders and Borrowers [a 'win-win' situation]

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Responsible Lending refers to Lenders' responsibility to offer credit products that are appropriate to consumers' needs and tailored to their ability to repay but also implies that consumers should provide relevant, complete and accurate information on their financial conditions and make informed and sustainable borrowing decisions (rather 'Responsible borrowing').

The purpose of this article is to briefly identify the major principles behind responsible lending/borrowing and most importantly point out the benefits arising from institutionalizing effective responsible lending practices by Banks but also to propose actions that lend themselves to improved mechanisms in this regime.

Pre-Contractual Information

Lenders are obliged through the Consumer Credit Directive to provide consumers pre-contractual information in a structured form that not only allows for comparison between offers but also secures that information provided is comprehensive without being excessively detailed. This requirement not only promotes healthy competition amongst lenders but also serves the best interests of consumers who can easily obtain relevant information prior to deciding on the right type of credit for their needs.

Advertising and Marketing

Due diligence must be exercised by Lending institutions when soliciting credit to prospective customers. Advertisements of credit products must not in any way mislead or put undue pressure on a prospective customer. The Consumer Credit Directive details the information to be presented in advertising of consumer credit. Potential borrowers are encouraged to aim at fully clarifying with bank officials any references made on advertisements and generally speaking, not only consumers but also banks must aim to provide such, comprehensively.

Risk Guidance

Within their duty to act responsibly, Lenders should develop risk guidelines to be made available to consumers before purchasing a credit product in a way to alert them on the risks they undertake by entering into a credit agreement. Such guidance could be provided verbally by the lender during discussions with the customers, be provided in the form of flyers through the lenders' branch network or be directly sent via the post but also through the lenders' websites and the internet, generally.

Suitability and Creditworthiness

Lenders should not only ensure that products are suitably designed but also that a product is suitable for a particular borrower. In order to tackle this last element, Lenders should adequately assess the consumer's creditworthiness (repayment ability) on the basis of sufficient information obtained from the consumer or obtained from a database such as a credit register.
The creditworthiness assessment is the basis for responsible lending. The assessment should be based on information from credit registers and from the borrower, supported by the necessary documentary proof. It is important to introduce a personal element to the creditworthiness assessment rather than a mere reliance on automated scoring.

Elements that need to be checked include income, house expenditure and other debt obligations. In the absence of a local credit register being operated in Cyprus capturing this wider extent of information (with the exception of Artemis Bank Information Systems Ltd, a Credit Bureau which focuses on Negative Data arising from pending Legal Actions, Court Decisions, Bankruptcies and CIR), this information is normally collected directly from the consumer in a way that could be verified (bank statements, utility bills, pay slips, social insurance payment slips, tax clearance forms etc). Undoubtedly, the existence of a Consumer Credit Register would be the best tool in the hands of banks for the effective and efficient carrying out of credit assessments for their customers in establishing the amount and type of debt that they are fit for. Such an endeavor calls for, not only the collective engagement of banking institutions but also of other major organizations in Cyprus, such as the Telecommunication Authorities, Main Service providers (i.e. electricity authorities, water boards), etc.

Information provision and Adequate Explanations

Lenders through their staff should aim at providing information to consumers to assist them opt for the products that best satisfy their needs and fall within their financial capacities. Such information should be as clear and objective as possible, based on the requirements of the borrower and commensurate with the complexity of the products and risks involved. Lenders indeed develop such information standards and adequately train their employees assuming client servicing in providing this information. In today's competitive banking environment, this factor alone is one that may differentiate one institution from the competition as not only the repayment of credit is more secured by offering customers what falls within their financial ability but also the potential customer is at ease when working with a banker that adopts such standards for their mutual benefit.

Responsible Borrowing

Potential borrowers must ensure that they exercise every effort to inform themselves of the products on offer, be honest when providing information on their financial situation to the lender and take their personal and financial circumstances into account when making their decisions.

At the forefront of this dimension lies "financial education". Financially literate consumers are more able to understand and assess their financial situation and the credit products on offer by different providers and make an informed choice on the most suitable product for them.

Enhancing responsible lending mechanisms and practices might on the one hand tighten credit checking procedures prior to loan approval, however, it commits banks to provide more assistance to customers who find themselves in financial trouble. Banks should actively attempt to warn customers not to borrow more than they can afford and to make sure they are able to pay back on time, as well as providing as much clear, concise information as possible.

Responsible lending and borrowing can only prove to be a win-win situation for the Lender and the Borrower as the interests of both are protected and their objectives met; while the Lender refrains from booking potentially problematic loans and consequently facing the effects of Non-performing loans, provisioning, increased capital adequacy requirements and ultimately reduced profitability, the Borrower, not only satisfies their financial requirements to the extent pursuant to their financial capacity, but also refrains from entering lengthy and stressful legal proceedings following a default on a beyond their financial strength loans.

The morale of the case: Lending / Borrowing should be optimal and not maximized.

Ensuring access to a bank account: a benefit to consumers

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Having access to a bank account makes our financial transactions and our every day lives easier. Deposits, withdrawing of money, payment of utility bills, salaries and pensions, purchasing of goods and services and transfers of funds would have been otherwise difficult to carry out. In this context, one of the major concerns of the European Union is to secure access to basic banking services for all EU citizens, that is, to create a specific regime so that all consumers may open and use a basic bank account within the EU. The rationale behind this is that essential benefits can be gained for both consumers and businesses which subsequently will lead to higher levels of consumer protection. As a consequence, improvement of the Internal Market could also be achieved.

Statistical data showed that about 30 million citizens in the EU above the age of 18 do not have access to a bank account. It has been estimated that from these 30 million citizens, around 6,4 million do not have a basic bank account because they have been denied access by financial institutions. The main reasons for this is considered to be the lack of fulfilment of certain eligibility conditions such as identity checks, or other practices and conditions such as residency requirements, proof of income, profitability issues, risk assessments, etc.

The situation, however, varies from one Member State to another. In some Member States banks are already bound by law to make basic bank accounts available to those who would otherwise be financially excluded (e.g. Belgium, Finland, France, Sweden, and Denmark). Slovakia has also recently enacted similar legislation and the UK has announced that legislation is being proposed. Banking industries in other EU Member States such as Germany have signed up to voluntary codes. Although in Cyprus there is no specific legislation for accessing a basic bank account, there is no real obstacle in opening a bank account for residents and non permanent residents. Nevertheless, based on Anti Money Laundering regulations and in order to protect the banking system against fraud and other illegal activities, banks must apply the principle of 'know your customer'. Therefore banks are obliged to verify the identity of any person applying to open an account as well as the nature of the business for which the account shall be used and the nature of all the activities related to that account. For this purpose, the customer is requested to provide identity details (i.e. passport /ID, utility bill showing the customer's address) and fill out and sign the appropriate documents.

Following various studies, public consultations and an impact assessment concluding that the overall impact for consumers would be strongly positive, the Commission issued in July 2011 a Recommendation at European level. The Recommendation creates a set of principles in order to ensure that all consumers resident in the EU have a 'right to open and use a basic payment account'. In other words, to ensure that banking institutions do not deny access to a basic payment account to those consumers who fail to prove their residence in the country or to those who are 'economically unattractive'. The Recommendation

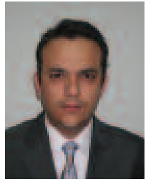
allows all consumers, irrespective of their residence and financial situation to fully enjoy the benefits of the Internal Market. In this way, all consumers have the right to a basic payment account, whatever their nationality or place of residence within the European Union. Criteria such as the level of income, employment, credit history or level of indebtedness will not be taken into account for the opening of a basic payment account. Moreover, according to the Recommendation the total fee for the payment service to be charged by the financial institution should be either reasonable or even free, so that consumers are not prevented from opening the basic payment account and using its associated services.

Based on the above Recommendation, a basic payment account includes services such as the opening, operating and closing of a payment account, cash withdrawals and execution of payment transactions (direct debits, credit transfers, payment cards). Overdraft facilities are not included in the definition of a basic payment account.

An EU Report that was published in July 2010 showed that both quantifiable and non quantifiable benefits could be gained for both consumers and financial institutions. In quantifiable terms, the net benefit to the consumer was found to be of the order of €315 per annum. As noted above, in total there are 30.06 million consumers without bank accounts. If we apply the whole of the annual benefit of €315 to all these consumers, the total benefit would be €9.5 billion across Europe as a whole. The study also showed that non-quantifiable benefits could be also attained, such as the ability to take jobs, rent property where a bank account is a requirement, have quicker access to funds and increased choice of goods and services through the internet. Furthermore, it was estimated that there are potential benefits to financial institutions i.e. increase of revenue from charges levied on basic payment accounts and increase of market shares.

The European Commission therefore encourages all Member States to adopt this Recommendation and calls for action in order to improve the current situation. The Commission is planning to assess the situation in July 2012 and if the results are unsatisfactory, legislative measures in the form of a Directive may be proposed in order to put an end to those practices that exclude people from accessing an essential payment account. However, it should be noted that any potential legislation must be prepared in light of the wider framework of consumer protection standards in financial services. The Consumer Rights Directive, the Consumer Credit Directive as well as the proposed directive related to residential property include certain provisions which should not be ignored in case of any forthcoming legislative measures. Furthermore, one can also say that the Single Euro Payment Area (SEPA) abolishes the existing distinctions between national and cross border payments. Nevertheless, SEPA is not yet complete and the Payment Services Directive (PSD) does not ensure access to a basic payment account. As a result, in order to fully utilize the benefits of the single economic area, further action is likely to occur in the future, particularly in case there is poor response from the Member States in terms of adopting the provisions of the aforementioned Recommendation.

Regulation on SEPA end - date Migration



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Payment Systems

Within the Single Euro Payments Area (SEPA), the European electronic payments landscape will eventually become borderless. Cashless payments such as Credit Transfers and Direct Debits made in and out of, countries belonging to the SEPA community, will be as simple, quick and cost-effective as domestic payments.

For Credit Transfers, this has already been a reality since January 2008. Whereas national payment schemes differed considerably before, new technical standards and harmonized formats are now in use, allowing companies and consumers to use SEPA Credit Transfers (SCT) for their euro payments across Europe, under the same terms and conditions.

A similar simplification has been realized for Direct Debit payments through the adoption of two SEPA Direct Debit (SDD) instruments, both introduced in November 2009 (the SEPA Core Direct Debit and the SEPA Business-to-Business Direct Debit Schemes). Besides the capability to replace the current domestic legacy Direct Debit schemes, the SDD can also be used for cross-border Direct Debits. SDD can hence be considered as a truly new instrument, since cross-border Direct Debits did not exist prior its adoption.

However, the slow migration from existing Credit Transfers and Direct Debits to SCT and SDD, has led the European Commission to present a proposal for regulating the end-dates of SEPA migration. The idea was to have SCT and SDD to fully replace existing credit transfers and direct debits, rather than allowing them to exist in parallel.

This proposal has been reviewed and finally approved by both European legislators, namely the European Parliament and the Council of the European Union. Both institutions have agreed on a common and final version of the Regulation on the 14th and the 28th of February 2012 respectively (fully named: "Regulation establishing technical requirements for credit transfers and direct debits in euros" – the "Regulation"). Although approved, the Regulation is still expected to be finalised in all EU official languages. On that basis, the law will most likely come into force in May 2012, after being published in the Official Journal of the European Union.

The law contains a SEPA migration end-date for both Credit Transfers and Direct Debits, which is the 1st of February 2014. This means that SEPA migration is no longer a voluntary project. It is in fact a regulatory project, because the use of SCT and SDD will become mandatory. Full compliance with the provisions of the Regulation will lead to faster, safer and cheaper payments for all EU citizens and is expected to save up to €123 billion in national charges within the next six years, benefiting both retail customers and businesses.

Full adoption of the Regulation will provide several benefits to retail customers and businesses. These are summarized below:

Benefits to retail customers

For EU citizens, it will no longer matter in which Member State a bank account is held. EU citizens moving within the Union could use a single euro account to transfer their salary, irrespective of the country the salary is earned. They could also pay bills in one country through an account held in another.

According to the technical requirements contained in the new Regulation, the IBAN (International Bank Account Number) will be the only necessary identification element for effecting a payment. This will therefore remove the need from customers to provide both the Business Identifier Code (BIC) of the Credit Institution and the Bank account number of the recipient in order to complete their payment.

Another gain is the requirement to apply non-discriminatory charges to transfers, irrespective of the amount involved. In particular the new Regulation removes a previous provision included in the 924/2009 Regulation, stating a 50.000 euro ceiling in the equalization of charges between domestic and cross border payments.

Benefits to businesses

Businesses could set up cross-border Direct Debits in euro between any two bank accounts anywhere in the EU, enabling them to bill customers regularly across borders.

By eliminating multilateral interchange fees on cross-border Direct Debits as of 2012, the Regulation will enable businesses to establish their payment centres in any EU Member State.

Businesses could also organise all of their cross-border euro payments from a single euro account in any country of their choice. This will enable them to improve their funds management and speed up their cash flows at a lower cost.

Finally, Banks will also be able to benefit from the exclusive use of SEPA products, as they will achieve economies of scale by standardizing their payment instruments. This will lead to consequent cost savings after their initial investment is covered. Banks will also be able to open to new markets and thereby increase their revenue base for existing payment instruments,

The importance of Credit Bureaus in times of financial crisis and the role of Artemis Bank Information Systems Ltd in the Cyprus Banking Sector

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The article comments on the important role a Credit Bureau plays for creditors, borrowers and the economy at large, especially in times of financial crisis, as the current one. In turn, Artemis Bank Information Systems Ltd (Artemis), the first fully-fledged Credit Bureau in Cyprus, has already made a significant contribution to its stakeholders, which is expected to grow over time.

According to the European Commission's "Expert Group on Credit Histories" report, released in 2009, a Credit Bureau is by definition a "privately owned legal entity that processes information on a creditor's clients in order to support creditors in the process of analyzing the client's creditworthiness".

Client creditworthiness is more important now for financial institutions operating in the Cypriot market due to the uncertainty caused by the prolonged economic recession, both at global and local level. Indeed, with Cyprus' Gross Domestic Product (GDP) increasing marginally by merely 0.3% in 2011, the unemployment rate climbing to 9.3%, inflation accelerating from 2.6% in 2010 to 3.4%, employees' salaries and benefits contracting on the back of restrictive incomes policies in both the public and private sectors (coupled with tax increases), the Cypriot economy is currently experiencing the worst crisis since the 1974 Turkish invasion.

The deterioration in the financial standing of both households and businesses, the banks' primary borrowers, increased the non-performing loans, forcing Banks to improve the quality of their loan portfolios. In their effort the role of Artemis has proved to be substantial.

This, of course, should come as no surprise, as international experience shows that, wherever they are established, Credit Bureaus offer multiple benefits to their data recipients: They enhance responsible lending, reduce information asymmetry between creditors and borrowers, lower the cost of servicing loans, help creditors guard against fraud gain, facilitate a more sound assessment of customers' credit history and, ultimately, enhance credit-risk-management practices, in line with global best practices. In fact research in Europe shows that, over the last 40 years, Credit Bureaus have played an essential role in the development of the risk assessment procedures that underpin consumer lending ("The evolution of credit bureaus in European countries", Matuszyk and Thomas, 2010).

The importance of the role of a Credit Bureau is elevated at times of financial crisis, mainly because credit has been a key culprit for the global economic downturn. The creation of comprehensive, transparent and efficient credit -information systems allow creditors to reach quicker and more reliable information-based lending decisions, providing access to finance to eligible individuals and businesses, hence facilitating growth in their economic standing. Consequently, responsible lending ultimately generates increased banking activity and growth, even during periods of financial stress.
At the same time, a Credit Bureau serves the needs of the borrowers as well by promoting the notion of "responsible borrowing". It therefore protects non-eligible borrowers against over indebtedness by providing a full picture of their credit exposure and hence of their capability to repay a loan. Consequently, credit-information sharing acts as a borrower's discipline device – this is documented by global statistics which suggest that data sharing does, indeed, reduce default rates.

Effective credit-information sharing through a locally-based Credit Bureau has significant benefits for creditors, borrowers and the economy as a whole, by generating improved systemic-risk monitoring, reducing creditors' losses and promoting financial market development and economic stability. The latter is exactly what is required at times of uncertainty like the current one.

Having entered into its third year of operation, Artemis continues to facilitate the exchange of Negative data among eight members of the Association of Cyprus Banks. The negative data include: Legal actions (lawsuits), Court decisions, the issuing of dishonoured cheques, bankruptcies and applications for bankruptcies for individuals, as well as dissolutions and applications for dissolutions of companies.

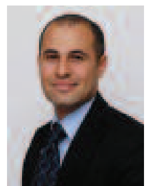
At the same time, the existence of Artemis contributes to "responsible borrowing" by educating the public about proper management of credit facilities. In addition, the Artemis Customer Service Office is fully operational, receiving and responding to queries and applications for accessing own information in accordance with "The processing of Personal Data (Protection of Individuals)" Law 138 (I) of 2001.

Although the tangible benefits of Artemis data recipients are communicated frequently to the company by bank

liaisons, through regular formal meetings, these were also clearly demonstrated in a recent Artemis- System-users' satisfaction survey. In the specific survey, the vast majority of users (94%) expressed satisfaction with the value of the Artemis data used in the decision-making process for credit-application evaluations. In a related survey reading, a staggering 86% of the users taking part stated that they have revisited their preliminary evaluation of a credit application after they went through the Artemis data for that person. Further proof of the value offered to the banks' operations is provided by the decision of several banks to expand access to the Artemis System to departments performing different tasks at various hierarchical and functional levels.

The addition of new Negative data categories (such as terminated accounts and accounts in arrears-90 days plus) in the future, is expected to further enhance the role of Artemis as the most reliable and comprehensive source of Credit information in Cyprus. Thus Artemis's presence helps safeguard commercial credit, mitigate credit risk and promote the reliability of transactions, which are all instrumental for the country to exit the financial crisis. From a longer-term perspective, the company is expected to play a vital role towards the full enhancement, modernization and evolution of the country's banking system and consequently to the smooth functioning of the Cypriot economy.

Protecting the value of Customer Relationship



Dr George Mountis
Group M&A and Strategy
Bank of Cyprus

The years to come will be challenging for banks as they continue to face uncertainty in the capital markets, constant margin pressure, a stricter regulatory environment, increasing demands on capital and a decline in customer confidence. Operating in a dynamic environment, relationship banking could be a valuable enabling strategy that could assist banks to promote competitiveness, having a positive impact on their bottom-line.

Today, while 'face-to-face' banking still remains invaluable (especially in small countries such as Cyprus), the key challenge is how to maintain the value of personal relationship banking without commoditising online banking services. This is a vital challenge. It is widely acknowledged in the sector that there is no sustainable value in banking without relationship. Thus, banks need to translate the 'old' physical relationship into a new multi-channel relationship, which is considerably more profitable and attractive. In looking for ways to drive growth, sustain deposit levels, and so forth, banks need to re-evaluate their customer management strategy carefully.

For customers with less extensive needs, relationships should be founded on a continuous and co-ordinated array of products made through different channels. They should be driven by advance customer relationship management (CRM) models that implement a holistic approach to embracing customers, channels and products. Financial institutions will benefit by investing in innovation, and identifying ways to use electronic channels to provide customers with more value-added services. Truly customer-centric banks could create a single, personalised relationship with customers that work across all layers of their operating models. Through relationship banking, banks can cross-sell and increase customer loyalty – which consequently will result in better deposit retention and so forth.

Today, social media also offer unparalleled access and relationship building, creating new opportunities. Although in Cyprus the number of financial services social media initiatives are still relatively small, their influence is spreading considerably. Community/ social networking websites are becoming popular both for relationship building and as hubs for innovative financial services.

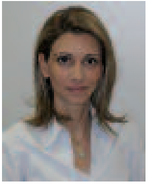
In a world where customers are carrying out more and more of their financial business through ATMs, online or using their mobiles (or telephones), banks must exploit the opportunities to serve them in an innovative but personal way building lasting relationships. To transform new customers into loyal ones, banks need to maximise the value they derive from every customer relationship. Banks also need to react to the changing role of branches in a multichannel retail-banking environment (notably because of the impact of mobile & Internet-based services). Most banks have already centralised their back-office functions, freeing up extra space and resources for customer-facing activities. Additionally, branches need to develop stronger 'advisory' capabilities if they are to succeed in acquiring customers within the micro-markets to which they belong. To this end, many banks are now planning (or implementing) smaller dynamic branches, focused sharply on sales.

A dedicated relationship manager (who could in some cases be a sector specialist) should be proactive in foreseeing/ clarifying customers (both individuals and/ or organisations) important opportunities and threats and give relevant professional guidance if needed, helping businesses gaining full insight into their strategies, the environment in which they operate in and the market realities. Today, the role of a relationship banker is to develop the contact with a set of customers (often in a specific industry), and use that relationship to help the bank cross-sell its core and auxiliary products.

One could argue that banks' most loyal customers are their 'older' customers; while younger generation customers (who are the retail banking customers of the future) are the least loyal and hardest to please (as per a McKinsey 2011 research for major UK banks). For the most part, the current customer experience model at banks caters for the 'older' generation, who more frequently bank in-person at branches. However, younger generation customers are much more mobile and rely heavily on online interactions. Therefore, banks that are looking to build long-term relationships with younger generation customers need to think about these basic elements. Also, convenience has always been the primary tool for attracting new banking customers. Banks need a strategy to attract and retain prospective customers who rarely step into a branch. To do so, they can identify and offer products and services that provide 'young' customers 'roots' at the bank, e.g. provide worthwhile incentives for online interactions, transactions/ services, and loyalty rewards schemes.

Innovative relationship banking strategies involve offering to both retail and corporate customers a broad array of financial products and services. By understanding customers' needs and problems, banks could proactively devise strategies to retain or increase deposits without affecting the costs, and improve portfolio quality, since they will be proactively monitoring market trends and informing customers accordingly. Relationship banking should be used as a strategy by banks to enhance their profitability by cross-selling, strengthening relationships with customers and increasing customer loyalty.

Bank Secrecy Challenges



Maria Aristidou
Manager
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"Bank secrecy is a legal principle under which banks are not allowed to provide to authorities or any third parties personal and account information about their customers unless certain conditions apply."

Over the years, some jurisdictions like Switzerland, Austria, Panama, Hong Kong, Singapore and Cayman Islands had a reputation for unbreakable Bank Secrecy walls and low tax regime. Due to these benefits, many investors, who wished for anonymity and tax benefits, moved their capital to these countries. Although some of these funds were the outcome of legitimate business, figures prove that Bank Secrecy in its full extent distorts trade and investment flows and liberalises fraud, evasion and avoidance of financial regulations, insider dealing, bribery and money laundering. Estimates show that illicit financial flows across borders are in the range of $1-1.6 trillion per year[1], about half from developing and transitional economies.

In 2009 the US managed to convince Swiss Bank UBS to disclose the names of more than four thousand American depositors who were suspected for tax evasion. Until then, Switzerland never before had agreed to disclose any information merely on the grounds of tax evasion, since it was not considered a criminal offense. Similarly Swiss Bank Wegelin, was recently forced to disclose customer data to US authorities who believed that a handful of Wegelin's US clients were hiding assets and not paying taxes. Following the collapse of Switzerland's "impregnable fortress" in 2009, it is doubtful if the concept of Bank Secrecy in its original form will ever be re-instated.

European countries took advantage of these incidents and raised the issue at the Organisation for Economic Cooperation and Development (OECD) and the G20 summits. As a result countries agreed to make arrangements through tax treaties which would facilitate the exchange of banking information if a suspicion of tax evasion arose. In November 2011 the head of the OECD said that a crackdown on banking secrecy has brought governments some 14 billion euros ($20 billion) in additional revenue over the last two years. However, the OECD report noted that, more needs to be done, as billions in undeclared assets remain stashed in offshore banks, which use secrecy laws to help clients avoid paying taxes in their home countries.

In addition to the on-going aforementioned efforts, the exchange of information in EU is done based on the provisions of the Savings Taxation Directive 2003/48/EC which first became effective on 1/7/2005. This Directive is basically an agreement between the Member States of the European Union (EU) to automatically exchange information with each other about customers who earn savings income in one EU Member State but reside in another (the automatic exchange of information option). Details of the customer's identity and residence, their paying agent, the level of savings income received and the period to which it relates is reported to the local tax authority in the country which the account is held and then forwarded to the tax authority of the country in which the customer is resident. The Directive does not apply to persons (including EU Nationals) who are resident outside the EU or to legal persons, i.e. companies. In defending their Bank Secrecy Laws, Austria, Belgium and Luxembourg agreed, instead of the automatic exchange of information option, for the levy of a withholding tax, with the revenues being shared with the other member states. The non EU member states of Switzerland, Liechtenstein, San Marino, Monaco and Andorra, agreed on the same principles. This principle however applies only for a transitional period which is expected to end by 2014 at the latest. The political pressure on "non-compliant" countries is expected to be strong during the next couple of years.

Under these circumstances, the question is how long the "what's left from the fortress" will hold, especially with the US pressing for global co-operation through the new FATCA (Foreign Account Tax Compliance Act) regulation which will be effected in 2013. The legislative objective of FATCA is to ensure that there is no gap in the ability of the U.S. government to determine the ownership of U.S. assets in foreign accounts. With FATCA, the US is effectively attempting to initiate a worldwide exchange of information on US Persons. This initiative will not be the last in efforts to provide greater tax transparency, as other nations or confederations of nations may look into similar measures. Additionally, the new FATF[2] recommendations expand the scope of money laundering predicate offences by including tax crimes. Non-EU countries are also pressured to get involved in the efforts of exchanging information for tax purposes, through Double Tax Treaties (DTT) with member states.

For many years Cyprus was criticized for providing a nest to investors who wished to hide their assets either for tax evasion purposes or for illegal business. Cyprus was included in 'black lists' of countries like Russia

1. *Global Financial Integrity publication of 2007.*
2. *The Financial Action Task Force on Money Laundering (FATF) was established by the G-7 Summit that was held in Paris in 1989. It is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing.*

and it was fought by 'rival' countries in a game of capital attraction. The island struggled over the years to re-instate its status and position itself as a country which offers quality international services, tax planning opportunities and confidentiality but all within a framework of laws and regulations in line with European regulations and directives. As part of those efforts, unanimous accounts or "secret accounts" were forbidden by law in 2005. Similarly DTT were signed with more than 40 countries including Russia. The DTT signed with Russia was amended in 2011 to allow the Competent Authorities of the Contracting States to exchange information deemed relevant for the administration or enforcement of domestic laws concerning all types of taxes. The new Treaty provides certain safeguards to the application of the general rule of exchange of information so as to ensure that the foreign Tax authorities do not engage in "fishing expeditions" without having any real evidence against the person under investigation. Specifically, the information may be provided only under the provisions of Cyprus Laws.

In Cyprus, Bank Secrecy is enforced by Law and may be waived only under specific conditions. The relevant laws are described in short below:

Under Section 29(1) of The Banking Law of 1997, it is forbidden to any director, chief executive, manager, officer, employee or bank representative and to a person who has by any means access to the records of a bank, to give, disclose, reveal, or use for his own benefit any information whatsoever regarding the accounts of any customer of the bank either during the course of his employment or his professional relationship with the bank, or after the termination thereof. The exceptions to the application of this section are the following:

- the customer or his authorised representative gives written consent to this effect
- the customer is declared bankrupt or in the case of a company it is being wound up
- the bank initiated legal proceedings against the customer or the guarantor of the customer's account
- the information is provided to the police under the provisions of any law or to a public officer duly authorised by law to receive such information or to a court during the investigation or prosecution of a criminal offence under a relative law
- the bank has been served with a garnishee order attaching moneys in the account of the customer
- the information is required by a colleague in the employment of the same bank or its holding company or its subsidiary or other subsidiary of its holding company or an approved auditor or legal advisor of the bank, in the course of performing their duties
- the information is required to assess the creditworthiness of a customer in connection with or relating to a bona fide commercial transaction so long as the information required is of a general nature and in no way related to the details of a customer's account
- the information is provided for the purposes of the database relating to dishonoured cheques
- the information is provided for the purposes of public interest or for the protection of the interests of the bank.

The Central Bank Law of 2002 – sections 63 and 64 provide that the Central Bank may request information, from the banks under its supervision, for the purposes of providing statistical information to the European Central Bank or for the purposes of collecting statistical information regarding the balance of payments or for other purposes within the scope of its duties. The Central Bank or any person who receives information in the course of services provided to the Central Bank is restricted from disclosing such information to any third party or Authority. The provision of aggregated statistical information without disclosing specific customer data is not forbidden.

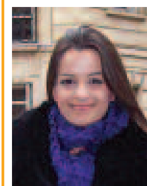
Tax Laws give the right to authorised officers of the Tax Authorities to request in writing from any bank to provide information on any active or closed account for a period up to 7 years back from the date of the request. The Tax Authorities, prior to submitting their request to the banks, must receive the consent of the Attorney General of Cyprus, who has to be convinced for the necessity of the provision of such information, and notify the person who is being investigated. For joint accounts held by more than one person, the above procedure must be performed for each person individually.

Furthermore, the Prevention and Suppression of the Money Laundering Activities Law of 1996 allows for the disclosure of information where a laundering offence is investigated after a court order is issued.

In conclusion, it seems that indeed the era of Bank Secrecy, for those who wish anonymity for tax evasion or illicit business, is over. Maybe there are some third countries which are not yet involved in Double Taxation Directives, but the world wide efforts against Bank Secrecy are strong and it is questionable if such countries will remain untouched.

Since Bank Secrecy is becoming less and less stronger, thus a weak attraction to investors, the jurisdictions to win the fight will be those to hold the balances between confidentiality and strong regulations against illicit business and tax evasion. Cyprus managed to play this game in the past and is expected to do so in the future.

Amended Property Planning Laws



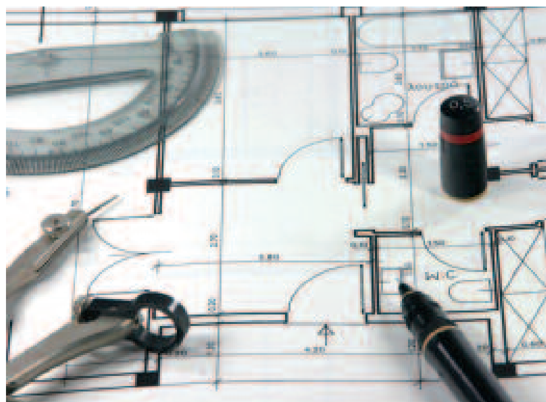
Dr Demetra Valianti
Senior Officer
Legal Affairs

The recently amended property planning laws [Town and Country (Amended) Law 2011, the Streets and Buildings Regulation (Amended) Law 2011 and the Immovable Property (Tenure, Registration and Valuation) (Amended) Law 2011] aim to ease problems in issuing Title Deeds resulting from planning infringements. The key features of the amended legislation are summarised below.

Up until the amendments, the legality of a building was a prerequisite for the issuing of an updated title deed. This caused problems particularly to purchasers of units in larger developments, whereby any illegality in one unit was a barrier for the issuing of a separate title deed for the rest of the units. This in turn had a negative impact during the provision of credit, as the banks of the purchasers could not register a mortgage on the separate title deed and had to take different, not to mention more costly for the purchaser, types of securities such as corporate guarantees from the developer, letters of guarantee etc. Now this situation is significantly improved as it is made possible for a certificate of registration to be issued for a building with certain irregularities and in addition separate title deeds are issued for individual units of a larger development. This also facilitates significantly the purchaser of a unit to invoke the right of specific performance of the contract of sale, through action taken in Court, against the vendor. The transfer of property to purchasers is performed by the registered owner, either voluntarily, or by an Order of the Court, issued at the request of the purchaser.

Updated title deeds can be issued, despite any building irregularities, provided that an application is submitted to the Building Authority, together with an accurate description of the building as well as any irregularities that may appear, in comparison to the building or the planning permit issued. These irregularities are to be recorded on the title deed for buyers and creditors to know. The Building Authority may issue a certificate of approval with notes or a certificate of unauthorised works, the updated title may be issued with notes recording the irregularities or even, depending on the seriousness of the irregularity, prohibiting the transfer of the property to another person. Inevitably, such notes will affect the value of the property but it is also hoped that they will also act as a disincentive for irregularities.

It is noted that the issuing of a title deed with notes does not render the relevant building legal. Where irregularities exist, substantial or otherwise, the Building Authority and/ or the Planning Authority,



and/ or the Director of the Land and Surveys Department, are empowered to take measures against the owner, so that he can be persuaded to fulfil all obligations arising from the legislation and the permit. What's more the right to activate necessary procedures for the legalisation of the development or for the issuing of updated title deeds, is extended – apart from the owner – to the purchaser (under certain conditions), as well as to the Competent Authority (Planning Authority, Building Authority, or the Director of the Land and Surveys Department). Consequently, the owner is no longer the only party that can invoke these procedures, particularly in cases where the owner is reluctant or unwilling to fulfil his obligations, as these arise from the conditions of the permits he has previously secured.

The owner of the development, as well as the supervising engineer, are obliged to inform the Building Authority, within a specified period, as to the completion and beginning of use of the building, and to any alterations which may not conform with approved plans and conditions of the permits.

In all three amended laws, Competent Authorities (Planning Authority, Building Authority and the Director of the Land and Surveys Department) are empowered to impose administrative fines, in cases where the owner is reluctant or unwilling to submit the required declarations or applications for the legalisation of buildings, or irregularities in buildings, or for the issuance of certificates of approval or certificates of unauthorised works or updated title deeds. Administrative fines are considered by the Ministry of Interior (which was responsible for the amendments in the legislation) to be the means for obliging those parties with a legal responsibility to comply with their obligations. It is expected that strict administrative fines will definitely have a major impact on wrongdoers.

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Standardization in the Services Sector: Business Challenges and Opportunities for Consumers

The Services sector, accounting for almost 70% of economic activity including employment in the E.U.,is exposed to an increasingly growing interest for the European standardizers. New European Standardization Technical Committees dealing with new work items for services are emerging.

The Services Directive (2006/123/EC) has been fully transposed by E.U. Member States into their national systems as from 2010. Its implementation provides benefits for businesses as well as for customers i.e. simplifies procedures and formalities for service providers, facilitates the establishments of a business to operate across borders, lays down a set of measures to promote a high quality of services and enhances information and transparency.

The European Commission in its attempt to provide further support to the Services sector through standardization in support of the Services Directory, issued a Mandate to the European Standards Organizations inviting them to draft standards for the Services sector. This action urged the European Commission to review its Vision for the 21st Century "...for a stronger and more competitive single market of Services".
A Study prepared by the leading European Standards Organization (CEN) in order to assist the implementation of the Mandate, prescribed that a number of new Technical Committees, Project Committees and Working Groups will be established in many fields of the Services Sector like: pan-European customer satisfaction index, translation services, accessibility to transport and tourism services, engineering consulting services, services at senior citizens shelters, reception and hospitality services, maritime services, IT services etc.

Until recently CEN has initiated new standardization work for drafting services standards in the following areas of activities, for some of which standards are already in use: Cleaning services, hearing aid professionals, management consultancy services, funeral services, security services in ports airports and aviation, services provided in old people shelters, postal services, real estate services, tourist guide services, maintenance services, construction enterprises, facility management, customer contact centers, furniture removal, logistics and transport services, business support services,film identification, SME support services, print media surveys, innovation management, chiropractic services, solarium centers, preservation of cultural heritage, IT services in learning education and teaching, education about standardization, quality systems in healthcare services, air traffic control services, societal security services, security service providers, self-storage services, cosmetic surgery services, experts services, child safety, recreational diving, translation services etc.

Despite the existing difficulties in achieving consensus throughout the drafting process of a European service standard, the need for more and more service standards is continually increasing! This is what citizens in Europe demand from the providers, seeking more safety, consistency, and better quality of services, all over the continent, all the times. This opportunity to push service providers improve the quality of the services offered, is for the consumers a means to improve their quality of life.

Simultaneously, the national authorities together with the National Standards Organizations ought to work together in an effective way so that European Service standards be included in the national legislation thus be helpful to all the social stakeholders. It is equally important for these standards to be applied in public procurements thus facilitate both demand and supply of services in an effort to improve procedures as well as the quality of the provisions requested.

At the same time, business opportunities exist through Service sector standards. In Europe, business professionals act proactively and effectively to market needs and take initiatives in drafting new European service standards for their own benefit and for the benefit of all other stakeholders in the market, taking into account standards market relevance.

In Cyprus where the Services sector dominates substantially all other production sectors, it will be very rewarding if the stakeholders appreciate the benefits in use of standardization and best contribute their own way in assisting service sector standards drafting. The said above target could be achieved by promoting these awarding benefits through the professional's associations, the national authorities' users of service standards, the consumers associations and all the other user groups. The participation of all related stakeholders including service users in standardisation work for services will ensure market relevance of the standards and maximize reward of use.

Especially during the last two years, an increasing interest from Cypriot experts has been reported through the Cyprus Organisation for Standardisation (CYS), to participate and actively contribute through input to the European Standardisation Committees drafting standards in the services sectors. Tourist guide services, real estates services, pest controllers, chiropractic services, customer contact centers, management consulting services, innovation management, education about standardisation, maritime insurance, airport and port security services, experts services, electronic signatures, electronic health records, energy management in buildings, are some of the recent standardisation work in the sector, where CYS experts have contributed added value to European (EN) service standards.

Recognizing the important role of contributing to the drafting of service standards, CYS is operating a subsidy scheme for non-governmental stakeholders who volunteer to participate actively in European standardisation work. The scheme serves as an initiative to encourage private involvement in new standards drafting by covering a significant percentage of their expenses. The response of the local experts was surprisingly very high thus the specific objective was achieved, and at the same time fostering a hands-on reward for the country itself.

Standards can be found everywhere around us in daily life. They could be in a form of a European (EN) standard, a technical specification, a technical report or a Workshop Agreement (CWA). They offer consistency, security and safety. They simplify life and improve the quality of life of every citizen, consumer, worker, employer, and businessperson, the society as a whole. Standards affect positively business competitiveness and eventually improve the state economy.

Thus standards have been proven to be a valuable tool to use for prosperity and welfare; when used extensively, they constitute an important ingredient of the national culture especially within the European continent.

CIPA Activities for the promotion of Cyprus as a Banking and Financial Services Center

Marios Tannousis
Senior Investment Promotion Officer
Cyprus Investment Promotion Agency - CIPA

Cyprus over the last 30 years and until 2009 was one of the fastest growing countries in the European Union, transforming itself into one of the Mediterranean's most dynamic international business and financial centers, bridging three continents and offering world-class services in a tax-efficient and stable environment. Cyprus, which has a long established reputation as a safe and secure location for commercial and business activities, is now facing challenging times due to the external environment mainly because of problems in Greece and the Eurozone.

The Cyprus Government has already taken measures and is promoting institutional changes to enhance financial stability and predictability, which is the backbone of the economy and an important factor for that attraction of foreign investments. Banks affected by the Greek haircut are taking measures to cover the losses that were experienced and it seems that they will not require the support of Government that is ready to assist.

It is widely recognized that the private sector is the prime mover in the attraction of foreign investments in Cyprus and the development of Cyprus into an international business centre. The Cyprus Government recognizing the need for enhancement of these efforts, established the Cyprus Investment Promotion Agency (CIPA), which started operations as from 2008 with a mandate to:

- Promote Cyprus as an attractive international investment centre;
- Advocate reforms in Cyprus required to improve the regulatory and business environment and infrastructure;
- Provide investor support with after care and further development services.

The operation of CIPA is supportive and complementary to the efforts already undertaken and in this respect, it has established a broad network of contacts both in the private and public sector. Moreover CIPA undertakes initiatives in geographies and activity sectors which are considered to be promising according to strategic studies undertaken.

The Banking and Financial Services sector including Investment Funds is a priority sector and CIPA has already taken action and a series of initiatives to promote Cyprus as a Center for Investment Funds. After a decision by the CIPA Board, an Advisory

Committee on Investment Funds has been established since early 2010, with a mandate to act as an advisory body to CIPA for:

- the promotion of Cyprus as an attractive destination for Investment Funds;
- improving the legal and regulatory framework;
- the capacity building by the service providers and the regulators.

In this Committee, experts in the field participate on their personal capacity and are driven by a number of success factors to be showcased for the development of Cyprus' funds industry which amongst others includes the presence of a comprehensive legal and regulatory framework, cost competitiveness and a professional business environment.

The strong growth anticipated by the industry encouraged the CIPA Advisory Committee on Investment Funds to encompass a wider spectrum of practitioners actively involved in the funds industry.

The primary role of CIPA Advisory Committee on Investment Funds is to actively promote the Cyprus investment fund industry, its products and its services. It represents the sector in targeted events and in selected geographies such as UK, Russia, Central Eastern Europe, and the Arabian Gulf.

An important objective of the CIPA Advisory Committee on Investment Funds is to act as a channel of communication and to make representations to the Cyprus Government and the regulator on legislative, regulatory and fiscal matters which amongst others have an effect on the business and/or professional interests of the Investment Funds industry. The Committee operates as a working group constantly reviewing and analyzing developments worldwide, as well as legal and regulatory changes in Cyprus and the EU, to identify opportunities for the Cyprus fund industry.

The activities so far of the CIPA Advisory Committee on Investment Funds include three round table discussions organized on the Development of Cyprus as a Center for Investment Funds, in which experts from abroad were invited to share their expertise and give their views and recommendations on the way forward. The latest round table discussion was organized in cooperation with the Association of Cyprus Banks which CIPA considers a valued associate in the efforts to promote and develop Cyprus as a Banking and Financial Services Center.

Another initiative of the Funds Advisory Committee is the publication of the "Cyprus for Funds Brochure" which is addressed to foreign investors and professionals of the sector, giving an outline of the situation currently in Cyprus regarding the Investment Funds, as well as the outlook for the future.

Realizing the importance of capacity building and talent for the fund industry, CIPA has invited the Universities and presented to them the prospects of the fund industry and the opportunities for graduates that will have a specialization and will follow courses that have to do with Investment Funds. Some of the Universities have already started offering courses and certificates that are also accredited internationally.

Promotional presentations focused on Investment Funds have been developed and are presented at seminars addressed to foreign investors abroad and locally, within the overall promotional strategy of CIPA. A good example is the recently organized event with great success, in London, focused on financial services and Investment Funds in collaboration with the Institute of Chartered Accountants of England and Wales (ICAEW).

It is important to maintain Cyprus competitiveness especially in a rapidly changing international market where competing jurisdictions undertake very intensive actions towards promoting their own comparative advantages to increase their own share in the international market. CIPA is closely monitoring developments and acts proactively in order to further improve the attractiveness of Cyprus as an International business center.

Financial and business services are leading contributors to the Cyprus economy with thriving prospects of growth. The technology and expertise supporting the Cyprus fund industry constantly evolves to accommodate new products and the growing registrations of Cyprus funds.

Cyprus offers one of the world's most globally-orientated and business-friendly environments for establishing financial and corporate structures. Cyprus has developed into a bridge of co-operation and may be used not only as an effective jurisdiction for routing investments within the EU, but also as a portal for investment outside the EU, particularly into the rapidly growing economies of Central and Eastern Europe, India and China.

Competitiveness is the main Economic problem of Cyprus

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Competitiveness is the ability of a country to compete in the foreign markets but also in the domestic market the imported goods and services. The competitiveness of Cyprus is downgraded. This is obvious from the fact that the current account is in deficit. In 2008 it reached 18% of GDP although it was reduced to 8% in 2010 and 2011. Also Cyprus has an inflation rate of 3.5% in comparison to 2.5% of the Eurozone. In Parallel the per capita national income of Cyprus is 98% of the EU average but its productivity is 90.4%. This means that either the per capita income must fall to 90.4% or its productivity raised to 98%.

The current account deficit of Cyprus, as also in the other countries, like Greece, which are facing problems of current account deficits, is covered by inflows insures of capital, either direct investments or deposits in the banks. But this foreign capital may leave the country at any moment. If Greece had the drachma and Cyprus had the pound we could devalue. But the benefit was going to be temporary because in the meantime the rise in the prices of imported raw materials, petroleum products and foodstuffs would lead to increase in costs and increase in prices. Also the increases in prices would lead to wage increases and then a second devaluation would be necessary. But now that both Greece and Cyprus have the euro and they cannot devalue, as the prime minister of Greece, Mr. Loucas Papademos, has also stated we can devalue internally by reducing wages and other incomes, which will lead to reduced cost of production and the increase in the competitiveness of the economy.

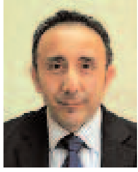
Thus for the rise in the competitiveness of the economy, measures for raising productivity, reducing cost, improving management and introducing new products should be used. Also reduced bureaucracy in the civil service, improvements in education and training of human resources and decrease of unnecessary regulations should be introduced. In parallel the taxation system should remain competitive with low tax rates. State companies should be securitised and partly privatised while semi-Government organizations which have ceased to justify their existence should be closed down.

In the report of the world Bank, Doing Business 2012, it is stated that for securing a building permit Cyprus is classified 78th out of 183 countries in comparison to 22nd for Britain and 41st for Greece, since nine processes and 677 days are needed while the cost amounts to 47.5% of the per capita income. For registering property the position of Cyprus is 123rd in relation to 13th for Esthonia, 68th for Britain and 84th for Italy, since six processes and 42 days are needed and costs 10.3% of the value of the property! For enforcing contracts the Cyprus position is 105th among the 183 countries in relation to 21st for Britain, 29th for Spain, 56th for Romania, 87th for Bulgaria and 90th for Italy. This is because 43 processes and 735 days are needed while the cost amounts to 16.4% of the value of the contract.

Therefore the improvement of productivity is a long-term process but in the meantime we must try to improve our competitiveness by reducing cost of production. It may be noted that in 2011 while productivity increased by 0.5%, wages increased by 2.6%, in 2010 productivity increased by 2.2% while wages rose by 3.7%. In 2009 the increase in productivity was of the order of 1.1% while wages rose by 4.3%. In 2008 the rise in productivity was a mere 0.9% while wages surged by 7.4%! It must be realized that it is not possible to award wage increases higher than productivity without downgrading the competitiveness of the businesses and thus of the economy, especially when it is not possible to devalue the currency. Therefore the freezing of wages for two years both in the private and public sectors is expected to lead to the improvement of competitiveness.

In a study prepared by the accounting firm KPMG for the Ministry of Finance it is stated that businesses in Cyprus are burdened with €900 million administrative cost plus €300 million normal cost and relevant suggestions are submitted for the decrease of the administrative cost. It is thus necessary for the Government to implement these suggestions and also introducing other measures which will help in reducing bureaucracy in the broader public sector so that the state will become more efficient and less costly to both the businesses and to the consumers.

An institution which downgrades the competitiveness of the Cyprus economy is the Wage Indexation System (ATA) according to which wages and salaries rise every six months on the basis of the cost of living. In parallel the employees receive wage rises on the basis of collective bargaining while in the public sector there is a third salary increase the so-called "annual increment". Wage indexation was in existence in many countries but it was abolished and only three countries, besides Cyprus, remained – Luxembourg, Belgium and Malta. But in these three countries wages increases are awarded annually and not six monthly, which affects to a smaller extent the competitiveness of the country. In parallel there is provision that when the county faces economic crises, wage indexation is deferred.



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Closer cooperation to combat bank robberies

Evidently, 2010 was the year with the highest number of armed robberies against bank, co-operative and savings bank branches in Cyprus. The risk rate increased from 1 robbery in 67 branches in 2009, to 1 robbery in 42 branches in 2010. The trend was confirmed in 2011, although a small decrease in the number of robberies was noted (1 robbery in 52 branches). The aforementioned trend is in line with the total number of robberies in Cyprus, which for 2009, 2010 and 2011 were 116, 136 and 131 respectively. The increase in bank robberies is largely due, if not in whole, to the detrimental effects of the economic crisis, the high unemployment rate and the increased financial burdens imposed on the public. It is widely accepted that these factors have also an impact in crime incidents, including bank robberies.

This negative event forced all related parties to join forces to respond. Closer cooperation between the parties involved could lead to coordinated action to achieve the targeted outcome. This is in line with the recommendations of the Physical Security Working Group (PSWG) of the European Banking Federation, which suggests that cooperation between public and private organizations is a process that enhances performance in several areas, including the fight against any type of crime (in our case, bank robberies).

Public-private partnerships in the area of physical security entail the cooperation between private organizations (in this case, banks), and public ones such as the police, the judicial authorities and other governmental departments to achieve a common goal. In the case of Cyprus, the public-private partnership in the area of physical security includes also representatives of employees, in other words their labour union. Such a partnership was formed in Cyprus in 1998 by the Cyprus Bankers Employers' Association, the police and bank employees' labour union (ETYK) as an additional mechanism to fight crime, specifically, bank robberies. In addition, this partnership discussed measures to help increase the physical security of bank branches. This tripartite committee met periodically and on a when needed basis to discuss issues that might affect the physical security of bank branches, to analyse future crime trends (especially bank robberies) and any other threat that may evolve as a risk factor against the security of banks.

The role of this partnership was rejuvenated and strengthened at the end of 2010 and early 2011, largely due to the increase in the number of bank robberies. To cope with the unexpected high number of bank robberies, the committee formed a subcommittee (called technical committee) composed of representatives from each party, experts in the area of physical security to tackle the issue, analyze current trends, identify measures taken in other European countries and finally recommend measures that should be implemented to enhance the effectiveness of the physical security measures implemented in bank branches. It is worthwhile to note that all parties involved, have accepted to implement the agreed measures in their respective organization. This was an important development since in the past the measures decided were implemented only by the banks.

The technical subcommittee convened several times during 2011, to identify, discuss, evaluate and finally recommend to the tripartite committee measures that have to be implemented in bank branches.
Some of the measures agreed during these meetings were:

- Continuous staff training on how to cope with bank robberies. This training will now be based on principles that have been agreed between the parties involved. In addition, although training is an obligation of the banks in their role as employers, the police and the labour union representatives could request information as to the trainings performed. They could also participate in the training seminars.
- Moreover, after a robbery takes place in a bank branch, the technical committee will convene the soonest possible to address the situation. Based on a report that will be prepared by the bank that suffered the robbery, the tripartite committee will evaluate the incident, identify any possible pitfalls in the security measures implemented in the bank branch and recommend additional measures, if needed.

Some of the aforementioned measures have already been implemented while others will be employed the soonest possible. It is worthwhile to note that other measures, not listed above, have been agreed and will be put into action as part of the aforementioned partnership. It is expected that the implementation of the protective measures mentioned above will help to reduce bank robberies.

The fight against crime is an on-going struggle and the Cyprus Bankers Employers' Association aims at minimising the risk for bank robberies, through the security measures implemented in bank branches. The closer cooperation with the police and the labour union through regular meetings to discuss measures to enhance the physical security of bank branches, and any other public-private partnership deemed necessary, could be a valuable approach to achieve the aforementioned goal.

Financial Transaction Tax and the case of Cyprus

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On 28 September 2011, the European Commission published a draft Directive whereby it proposed an EU wide financial transactions tax (FTT), to be applicable to a wide range of transactions in financial instruments. The proposed tax would be payable on all transactions of equities and bonds at a minimum rate of 0.1% of value and on all derivatives transactions at a minimum rate of 0.01% of value. If approved, it will take effect as from 1st January 2014. While global FTT implementation is the ultimate goal, this seems to be unattainable for now and so it is envisioned to be implemented at the EU or, at least, the eurozone level.

Given the high budget deficits of most EU countries and the present drive for fiscal consolidation, the FTT sounds like an appealing way of raising revenues. The fact that FTT is perceived to penalize only the financial institutions makes it even more attractive to politicians. However, it is of paramount importance for decision-makers to evaluate carefully the impact it would have on each individual country as well as to ensure that the wider implications of the FTT proposal are clearly understood.

A major argument used by the proponents of FTT as well as by the EU Commission is the claim that the financial services sector is currently under-taxed by comparison with other sectors, and that the FTT is a means to rectify this. However, no evidence is given on a country-by-country level or indeed on an EU level to support the claim that the financial sector is currently not making a fair contribution to public finances. In fact in Cyprus, an analysis of the tax revenues strongly refutes the proposition the financial sector is under-taxed. It can be seen from the table below that total tax receipts from the activities of our members during the years 2010 and 2011 have directly and indirectly contributed 14% of the total tax receipts of Cyprus's Inland Revenue Department, whereas the entire financial sector's contribution to Gross Domestic Product (GDP) was 8.1% in 2010. The direct contribution is derived from corporation tax, capital gains tax, special banking tax, immovable property tax, professional tax to municipalities, stamp duty on transactions as well as deemed dividend distribution and special contribution for defense withheld from shareholders. The indirect contribution is derived through the persons employed by the banking sector (pay-as-you-earn income taxation, social insurance and other contributions by the employer) as well as through attracting and retaining deposits in Cyprus (special contribution for defense on interest income of Cyprus tax residents).

The above analysis shows that the contribution of the financial sector in Cyprus is indeed more than fair related to other economic sectors and it serves to highlight the error of implementing a single tax approach to all EU countries. This goes back to the principle of allowing each member state to determine its own taxation policies which are relevant to its specific circumstances and economic model. The introduction of FTT would run against this principle. Even though Cyprus today (as well as some other member states) already implements a levy on financial transactions (of 0.15% on the value of local stock exchange transactions), this does not justify imposing FTT on all member states. This is because the provisions of FTT fail to take into account local specificities and, in the case of Cyprus, would potentially cause a big proportion of economic activities to stop altogether or migrate outside the EU.

One of the provisions of FTT is that the relevant tax would be levied whenever at least one party to the financial transaction is located within the EU even if the counterparty is outside the EU and if the transaction takes place outside the EU. Implementation of FTT would provide strong incentives to financial services companies to relocate outside the EU, causing substantial loss of income and jobs for the relevant member states. Indeed, in its own Impact Assessment, the EU Commission estimates that the potential impact of the tax on the EU GDP would be a reduction in future GDP growth by as much as 1.76% (€286bn) annually. This Impact Assessment however, does not provide an impact analysis

Contribution of the members of the Association of Cyprus Banks to Cyprus state revenues

€ m	2010	2011
Banks' payments towards the Internal Revenue Department:		
Total taxes from operations and profits	134.31	138.46
Defense tax withheld on deposits	71.25	80.49
PAYE - tax withheld on employee pay	57.31	62.70
Totals	**262.87**	**281.65**
Total annual receipts of Inland Revenue Department (IRD)	1,871.73	2,020.75
Banks' contribution as % of IRD revenues	**14.0%**	**13.9%**
Other banks' payments towards the Cyprus government		
Employers' contribution for social security and other mandatory payments to government	25.14	26.53
Employers' contribution to social cohesion fund	12.98	13.59
VAT	11.07	12.30

Source: Inland Revenue Department, information from ACB members

on a country-by-country basis. We believe this exercise should be carried out because the FTT would hurt specific countries disproportionately. It can be seen that member states that have large financial services sectors relative to their economy such as the UK and Cyprus, stand to lose a greater share of their long run GDP than the average given for the entire EU.

Cyprus, due to its favorable tax regime and its excellent infrastructure facilities and services, is commonly used as an intermediate holding company jurisdiction by investors from Russia, the Ukraine, India and the Middle East, to name but a few. These holding companies carry out investments in EU as well as non EU companies and conduct large numbers and volumes of financial transactions that would be within the scope of FTT. Additionally, Cyprus has successfully attracted major Russian financial services operators who set up companies incorporated and based in Cyprus, which are regulated by Cyprus Securities & Exchange Commission and are licensed to trade in capital markets and offer portfolio management services to their (mainly) Russian clients or for their own account. These investment companies carry out a big proportion of trading in the Russian capital markets through Cyprus. Other foreign-owned investment companies that operate through Cyprus include various foreign currency operators, who trade in the international currency markets through Cyprus-based MiFID-compliant companies. Since FTT is planned to be imposed on all for-ex transactions except spot transactions, the transactions of these for-ex operators would also be taxable.

All of the above companies are important contributors to state revenues and provide a significant number of well-paid jobs, and yet since their transactions are carried out outside the EU, they can very easily relocate to evade the introduction of FTT, with significant negative impact on the Cypriot economy. As a result, FTT would destroy Cyprus's prospects as a financial centre, whereas the net tax revenue impact could even be negative, given the consequent reduction of economic activity and erosion of the tax base.

A further consequence of FTT would be the negative impact on domestic liquidity. The companies that are likely to relocate, as explained above, currently account for a large proportion of deposits in local banks. If they ceased local operations, they would probably take their deposits with them, creating pressures on local liquidity. These liquidity pressures would also be exacerbated by the effect of FTT on repurchase agreements. FTT would be applicable on repurchase agreements (repos). Such agreements allow banks to carry out secured lending between themselves using less liquid assets (such as government debt) as collateral in order to meet their liquidity requirements. However, much of repo activity would be uneconomic with FTT and therefore banks would be forced to replace repos with cash holdings to meet their liquidity requirements. This would increase banking costs but would also increase demand for cash. Currently Cyprus financial institutions have very limited access to wholesale funding markets due to the recent credit rating downgrades, which have already caused a liquidity strain. Therefore, a flight of deposits together with an increase in demand for cash by banks would add to the existing liquidity pressure, creating further unwelcome upward pressure on interest rates.

In addition to the above, FTT would have other negative repercussions on Cyprus's banking sector. As FTT would apply both to transactions between third parties and intra-group transactions, it would increase costs for banks that administer their financial assets through Cyprus, causing them to transfer a portion of their treasury and finance activities to their non-EU subsidiaries. Furthermore, banks provide some services to customers that entail carrying out financial transactions with low profit margin. These services would be discontinued since the tax would be much greater than the banks' actual profit.

From the points outlined above, it can be deduced that the implementation of FTT would damage economic growth and competitiveness in Cyprus inordinately while the net tax effect could even be negative, given the destruction of economic activity it would entail. At a time of continuing recession and record unemployment rates, no justification for the proposed FTT stands to scrutiny for Cyprus.

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