

CYPRUS AFTER THE CRISIS CHALLENGES AND OPPORTUNITIES

Your Excellencies, Distinguished Guests, Ladies and Gentlemen

Good morning and welcome to Cyprus

It is a great pleasure for me to be here with you today and I would like to thank the organizers for this honour and opportunity to address your distinguished gathering. I hope and trust that your visit here in Cyprus will be successful.

1. Introduction

The Cyprus financial sector has been for several years, the most dynamic component of our economy, demonstrating remarkable innovation, resilience and adaptability to the evolving economic environment. Amid extremely difficult conditions, experienced in the last 3 years because of the global financial crisis, our financial industry has managed to remain on a positive growth path. This has been mainly due to two factors:

- (a) The financial institutions' relatively limited exposure to investments in structured and other so called "toxic" products. A contributing factor to this positive result was the conservative policies prescribed by the supervisory authorities and adopted by these institutions, in the placement of their funds,

(b) the growing number of foreign organisations (from Europe, Russia and the Middle East) which have set up and operated financial units in Cyprus, a development which largely reflects the attractiveness of Cyprus as a reliable regional financial centre.

Against this background, I propose to highlight certain factors underlying the good performance of the financial industry by focusing on those relating to the securities market. Then I will proceed to give a brief overview of the challenges and opportunities lying ahead.

2. The Cyprus Securities and Exchange Commission

The Cyprus Securities and Exchange Commission, which has been assigned the responsibility of supervising the Cypriot securities market, was established in 2001 as a public corporate body.

Its purpose is to ensure the smooth operation and methodical growth of the securities market as well as to monitor the transactions in transferable securities carried out in the Republic. The scope of the supervision also extends outside the Republic with regard to transactions carried out by Investment Firms that

are licensed by the CySEC. The individual powers and responsibilities granted to the CySEC comprise: the licensing of Cyprus Investment Firms, Organised Markets (for example stock exchanges), UCITS and UCITS Management Companies, the supervision and monitoring of the compliance of these institutions with their legal obligations and the approval of Prospectuses and Public Takeover Bid Documents. They also include the prevention and repression of insider dealing and market manipulation actions.

It may be noted that the CySEC is an independent public authority and is one of the five authorities supervising the financial sector in Cyprus.

3. Regulatory and supervisory framework

a. Accession to the European Union

A landmark in the evolution of our securities market has been the accession of Cyprus to the European Union in 2004 and the harmonization of our national legislation with the *Acquis Communautaire*. This has significantly helped in the modernisation and upgrading of the regulatory and supervisory framework of Cyprus in a relatively very short period of time. The transposition into Cyprus Legislation of

the European Union Directives has led to the creation of a regulatory and supervisory framework for transferable securities in Cyprus, which is comparable to that of more financially advanced countries.

Moreover, Cyprus has acquired experience and know-how from other Supervisory Authorities and to this end, it has closely cooperated with them under the auspices of the Committee of European Securities Regulators (CESR), soon to become ESMA – European Securities Markets Authority.

Meanwhile, as a result of the financial crisis and the consequent promotion of new legislative measures at European level, new European Directives/Regulations have been issued or shall be issued soon which have already been transposed or will soon be transposed into our national legislative framework.

b. European regulatory framework

Of a series of measures adopted by the European Union it would be worth mentioning:

- (a) The Regulation on the licensing and supervision of Credit Rating Agencies; and

(b) The second amendment of the Capital Adequacy Directive.

Cyprus as a home country for two CRAs (Moody's and Capital Intelligence) will be called upon to play an active part in the supervision of these agencies, a task which constitutes a serious challenge for the CySEC.

4. Development of a more competitive and efficient securities market

a. Objective achieved

Our objective for the development of a healthy, more competitive and efficient securities market in Cyprus, which promulgates the operation of robust financial institutions, has been mainly achieved through the operation of a free market and the concomitant ease with which financial institutions licensed in Cyprus, may provide their services in other EU Member States, through simple notification procedures without further licensing. In such a free market, in which the use of a single passport is permitted, it is not surprising to notice the sharp increase in the number of foreign owned organizations which want to get a licence and operate through Cyprus.

b. Intense interest from abroad

In 2003, the year before the accession of Cyprus to the European Union, there were 18 Cyprus Investment Firms under the supervision of the CySEC. Today there are 83 with 21 new applications being currently examined.

It is of interest to note that about 40% of CIFs are of Russian ownership.

Based on the information and data available, it seems that the interest of mainly foreign owned organisations, to obtain a licence for the provision of investment services through Cyprus, remains undiminished.

In view of the rapid market growth, the CySEC took a number of measures to ensure the smooth operation of CIFs, including the organization of training seminars for CIFs regarding the effective implementation of the new legislation, the setting up of an electronic communication line to address any questions that may arise from CIFs and strengthening of the supervision as regards capital adequacy levels and the standards of organisation, staffing and management of CIFs.

5. MOU with FFMS of Russia

Having said this, it is important to mention the fact that during the official visit of President Christofias to Russia two years ago, we were privileged to sign, in the presence of President Medvedev and President Christofias, a Memorandum of Understanding with the Federal Financial Markets Service of Russia. Two years on, I am pleased to report that the co-operation with the FFMS has been extremely good and mutually beneficial.

6. Prospects

a. We build the credibility of the market

Regarding our prospects let me start by making a brief reference to how international organizations assess the Cyprus supervisory regime. In Autumn 2008, The International Monetary Fund, as part of its scheduled assessment of the financial sector of Cyprus in the context of the Financial Sector Assessment Programme 2008, also reviewed the operation of the CySEC. The aim of this assessment was to evaluate the extent to which the CySEC has implemented the Core Principles of Securities Regulation of the International Organization of Securities Commissions (IOSCO). The findings were very positive for the CySEC. The CySEC was

found to fully implement 25 out of the 30 Core Principles, while it broadly implements another 3 and partially implements the remaining 2 Principles. With the passing of the new CySEC Law in 2009, this has been further improved with only 2 Principles not being fully implemented (1 is broadly implemented and 1 is partially implemented).

b. Aspiration to make Cyprus a credible regional financial centre in the Middle East

These being said, it is obvious that Cyprus, in its aim to excel as a respectable regional financial centre, is faced with considerable challenges but also considerable opportunities.

The challenges can be put in two broad categories:

- (a) the transposition of extensive new directives into Cyprus legislation; and
- (b) the effective and timely implementation of the new legal framework which entails development of expertise at supervisory level, for example in the supervision of Credit Rating Agencies.

The opportunities that have to be exploited can again be put in two broad categories:

- (a) to build on the new common EU regulatory framework which will be comprehensive and cover a wider scope and thus secure the confidence and trust of the market participants.
- (b) To capitalize on the comparative advantages that Cyprus can offer as a regional financial centre

Indeed Cyprus is very well placed not only to become a regional financial centre but to excel at it. Being a member of the European Union as well as the Eurozone, Cyprus has considerable advantages compared to other jurisdictions in the Middle East that have similar aspirations. The business support services infrastructure (accountants, lawyers, business service providers) is recognized as one of the best with very well trained and experienced in their field professionals. The taxation regime is favourable to foreign investors. Cyprus's geographical position and proximity to the Middle East, as well as the traditionally good relations with these countries, is a definite advantage. The utilities are of supreme quality not to mention the fact that as a place of residence, Cyprus is considered as one of the most secure and pleasant.

7. Concluding remarks

The new EU legislative measures in place and under consideration are opening a window of opportunity for Cyprus to realize its vision not only to become, but to excel as a regional financial centre.

Furthermore, we expect that as a result of the recent financial crisis, the persisting imbalances and the funds accumulated by countries running sizeable surpluses and experiencing remarkable growth rates (Russia, China, oil producing countries) will be recycled through countries with good infrastructures which can support further development. We are very optimistic that Cyprus, given the excellent relationship it has with these countries, as well as the comparative advantages explained above, is very well placed to take advantage of these movements.

With these last remarks let me thank the organisers again for their kind invitation and you Your Excellencies, ladies and gentlemen for your kind attention and wish you all the best in your endeavours.

Thank you.