

Challenges & Opportunities  
For Capital Markets in Cyprus

Let me take the opportunity to thank you for your kind invitation and to take part in the discussion on the ‘Challenges and Opportunities for Capital Markets in Cyprus’. I will focus my contribution to the regulator’s perspective.

Let me set the framework for the discussion by describing the emerging European scene on one hand and the Cyprus landscape on the other.

At the European level, the Financial Services Action Plan (FSAP) aims at speeding the creation of a pan European Securities market – a process that was already in progress anyway as part of what we call “Globalization”. As part of this process stock exchanges throughout Europe are joining forces, in regional alliances –e.g. Nordic Countries, Euronext, while other are talking of merging (London, Frankfurt, Paris) or are subject to takeover bids etc. At the local level we see the equivalent move of the Cyprus Stock Exchange to introduce a common trading platform with the Athens stock exchange.

The challenges posed by these moves for regulators are multifaceted.

Issues of uniformity of standards (level 3) to ensure level playing field, cross border co-operation in investigations, etc are issues that affect all EU regulatory the same, but the issues of keeping pace with a fast moving Europe is one that is a special challenge to a small regulators with limited resources like ourselves. In addition, since European markets are much more complex and advanced than ours, the European regulatory framework is a difficult one requiring sometimes very specialist knowledge in order to adopt it (e.g. Basel II).

More specifically the introduction of the Common trading platform of the Cyprus Stock Exchange with the Athens Stock Exchange will bring to the forefront matters of co-operation with our Greek counterparts, will force us to change our market surveillance systems (access to the Cyprus Registrar of Companies and Cyprus ID records will not be enough to monitor the market efficiently) to say just a few of the issues that immediately jump to mind, while longer term issues of regulatory arbitrage will begin to emerge.

A different aspect of the Country's entry into the EU is that it has forced us to redefine the concept of "offshore" financial services companies, since these entities have now equivalent status to the local Financial Services companies. The challenge that is presented

here to the CySec is how to manage this transition by being firm enough to move these companies from what they used to be (brass plate or just accounting/booking offices or back-offices) to fully blown Financial Services companies with EU standards without “scaring them off the island” by being too absolute or ignoring their basic needs which are, by their very nature and history to operate offshore.

Our next challenge, I believe is to train and educate the market (and ourselves) and move from an emerging market environment to a more mature market environment. The fact that we have harmonized our legal framework to that dictated by EU, does not automatically mean that our markets are up to EU standards. Ignorance of the relevant laws, rules or regulations, misunderstandings, investor financial illiteracy, are all issues to be addressed and taken into account in the way supervision and enforcement is performed by the regulator, who has an added “coaching” role to perform.

Related to this is the need to gradually change supervisory model from supervision through the “brute force of law” to one where the market listens to the regulator and respects the regulator because of our competence and credibility in the eyes of market participants. A

regulator which understands the problem of the market works with the market but is not an “agent” of the industry that it supervises.

The final challenge for capital markets supervisor in Cyprus is to understand that financial markets are not just “merging” on just one axis (capital markets together, banking markets together, insurance markets etc) but are also fusing among themselves. Let me quote some areas of overlap that we have.

- a) Banks with insurance subsidiaries and insurance companies with banks as subsidiaries
- b) Banks having Brokerage subsidiaries
- c) Banks and Insurance companies being listed companies
- d) Co-ops that offer banking and in the future investment services
- e) Overlaps in consolidated prudential supervision and capital adequacy
- f) Financial Services Companies and Banks both offering investment services
- g) Money Laundering
- h) Insurance offered investment plan that are for all term and purpose Mutual Funds
- i) Pension plans that are like Mutual Funds etc etc

This fusion creates the need for ever increasing tighter co-operation between the relevant supervisors (Central Bank, Superintendent of insurance, CySEC, Co-Op Superintend and Pensions Regulator) and will be one of the major challenges in the future till eventually (and inevitably) we introduce in Cyprus (like so many other European countries) a Single Regulator.