

## PRESS RELEASE

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CySEC: Committed to technological upgrade to enhance supervision

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The Cyprus Securities and Exchange Commission (CySEC) will pay special emphasis to its technological upgrade in 2020, acknowledging the potential offered by new digital tools and systems in achieving its supervisory goals.

Speaking at a Press Conference, during which she presented CySEC's work in 2019 and its objectives for 2020, CySEC Chairwoman Demetra Kalogerou highlighted that CySEC is dedicated to modernising its operations, by promoting substantial changes that will simplify and automate its work. As she pointed out, the Commission's ever-changing operational needs make it necessary to modify and upgrade its electronic systems.

### **Technological upgrade**

With the arrival of 2020, CySEC expanded its digital archives of corporate data to include also the Alternative Investment Fund Managers (AIFMs). This is an important milestone because it enhances the transparency and efficiency of the emerging alternative investment sector in Cyprus, which has the potential to finance the real economy.

The Digital Archive is a platform which allows AIFMs to login and submit data in an improved way, using a new and more user-friendly system. Managers can monitor all data submitted and make additions or changes at any given time. This improves transparency of information and allows CySEC to keep track of their corporate changes.

In 2020, CySEC will transfer, store and process the large volume of information (Big Data) it receives on a cloud-based architecture. This technological evolution will enhance the business knowledge that is produced, which is essential for more efficient and direct supervision.

CySEC aims to find other technological solutions, including artificial intelligence, to process and analyse the large volume of information (Big Data) it derives from regulated entities. Specifically, Data Quality will be automatically processed and analysed for the purpose of enhancing the efficiency of supervision over a range of issues, such as best execution of client orders, detection of unusual transactions aiming to market abuse and detection of suspicious transactions relating to anti-money laundering.

Through the adoption of sophisticated technology, market supervision will be intensified, resulting in significant improvement in CySEC's preventive policy and thereby enhanced investor protection.

Furthermore, in 2020, CySEC intends to develop a specialised system for the electronic submission of applications by new entities for authorisation and other substantive changes, as well as to automate the process of applying for cross-border services. In addition, it will begin the development of a system that will keep an electronic record of all the data held by the Licensing Department.

In the framework of Cyprus' National Strategy for blockchain, CySEC has proposed the conduct of a study to assess the viability of using blockchain technology to create and maintain the Trust Registry, the responsibility of which has been assigned to CySEC. As CySEC's Chairwoman pointed out, another objective for 2020 is to upgrade and optimise the Risk-Based Supervision Framework, which measures the level of risk for each supervised entity and helps at focusing supervision in entities with a higher level of risk.

### **Improving the regulatory framework**

Special emphasis will be given to the enrichment and modernization of the capital market regulatory framework, Mrs Kalogerou stressed. By January 2020, CySEC issued the Crowdfunding Directive, which relates to the issuance of securities by CIFs.

Highlighting the significance of regulating the Crowdfunding sector, CySEC's Chairwoman said that it is an alternative form of financing, through which small and medium-sized start-ups are publicly funded, including through the issuance of securities (usually stocks or bonds). Interested parties come into contact via the crowdfunding providers, the CIFs, acting as intermediaries, managing the electronic systems and matching the need of SMEs to be financed, with the investors' interest to invest in them. Up to €5m could be raised for each individual case without requiring the preparation and CySEC approval of a prospectus.

At European level, the content of the relevant Regulation has already been agreed and is expected to be published in the Official Journal of the European Union towards the end of the summer. The EU Crowdfunding Regulation sets out the framework and preconditions for the licensing of companies that will provide this new investment product via electronic platforms, within the EU. In addition, the European Commission is expected to publish the delegated acts to implement the Pan-European Individual Pension Product Regulation, or PEPP, which is part of the Capital Market Union Action Plan and the investment plan for Europe. As Mrs Kalogerou pointed out, the importance of this new type of voluntary individual pension lies in offering savers more options when saving to secure an adequate retirement income and providing them

with products that are more competitive. It can also be transferred anywhere within the EU.

### **Package for sustainable investments**

During the Press Conference, CySEC's Chairwoman emphasised another important regulation that is expected to come into effect at the end of May. The package governing sustainable investments, which takes into consideration the Paris Agreement on climate change and the EU's action plan on financing sustainable growth. Specifically, it seeks to redirect capital flows to financial products focused on sustainable investments.

The draft Law on the transposition of the 5<sup>th</sup> European Directive on the Prevention of Money Laundering and Terrorist Financing, which includes, for the first time, arrangements for virtual currencies and digital wallet custodian service providers, is also currently being prepared, Mrs Kalogerou noted.

Aimed at enhancing the protection of investors, the certification of compliance officers on Anti-Money Laundering matters began in February 2020. The purpose of the relevant exams is to ensure that persons designated as AML compliance officers are properly trained.

### **Supervision and fines**

During 2019, the Supervision Department carried out 28 onsite inspections on 27 CIFs and 585 thematic desk-based reviews on 235 CIFs. It also carried out desk-based checks on 174 AIFMs/AIFs for compliance with the minimum asset requirements, as well as on 111 AIFMs for assessing their compliance with data reporting requirements, as well as 5 UCITS Management Companies (10 UCITS) to ascertain their compliance with their obligation to submit annual and interim reports.

In 2019, the Anti-Money Laundering Department carried out 17 planned onsite inspections on CIFs, ASPs and AIFMs. It also inspected the annual reports of the compliance officers and the internal audit on money laundering, including the relevant board practices, as submitted by the CIFs, ASPs and AIFMs. In addition, it collected and assessed specific data and information from CIFs relating to their compliance with their ongoing obligations based on the relevant law and CySEC's Directive on these matters.

In 2019, the Market Surveillance and Investigations Department has entered and conducted investigations at the premises of 6 CIFs, over possible violations of the legal framework, following the submission of investor complaints. It also completed

8 investigations during the course of the year. By the end of 2019, there were 23 ongoing investigations into various entities and another into the actions of a natural person operating in the banking sector.

In 2019, a significant number of Issuers failed to comply with their obligations to publish the Annual Financial Report for the full financial year, as well as the Interim Financial Report. As a result, CySEC investigated several cases of potential infringements.

CySEC also continued to monitor the compliance of Issuers with article 78 of the Auditors Law of 2017, regarding the setting up of an audit committee. All issuers have set up an audit committee.

As a result of the investigations and onsite inspections, CySEC imposed administrative fines of €1.27m on supervised entities and senior officials in 2019, of which €1.25m concerned CIFs. Over the past two years, CySEC imposed fines of nearly €8.8m, of which around €6.8m concerned issuers. In addition to the financial penalties, CySEC also suspended the licensing of 4 CIFs, where serious problems were identified. Additionally, CySEC made recommendations to supervised entities to take a series of corrective measures to improve their internal procedures, regulations and practices, to achieve full compliance with their obligations. Furthermore, CySEC send 7 letters to the Attorney General of the Republic to investigate potential criminal offences.

Mrs Kalogerou stressed that investor protection is and will remain a top priority for CySEC, with the ultimate aim of ensuring the Cyprus capital market's growth and progress. "We will continue to work towards this direction, enhancing our efforts by upgrading the infrastructure and systems CySEC has at its disposal, which contribute to strengthening the supervision of licensed entities and upholding the new legal requirements," she added.