
TO : Cyprus Investment Firms

FROM : Cyprus Securities and Exchange Commission

DATE : 28 March 2019

CIRCULAR No : C305

SUBJECT : Inclusion of interim profits in Common Equity Tier 1 Capital

The Cyprus Securities and Exchange Commission (“the CySEC”) wishes herein to provide further guidance to the Cyprus Investment Firms (‘CIFs’) on the inclusion of interim profits in Common Equity Tier 1 Capital. In particular:

1. According to Article 26(2) of the [Regulation \(EU\) No. 575/2013](#) (‘CRR’), CIFs may include interim profits in Common Equity Tier 1 Capital (‘CET1 capital’), before the CIF has taken a formal decision confirming its final profits for the year, only if they get the prior permission of CySEC.
2. CIFs should apply for a permission from CySEC in order to include interim profits in CET1 capital. In their application, CIFs are required to demonstrate that the following conditions, as set out in Article 26(2) of CRR, are met:
 - i. Those profits have been verified by persons independent of the CIF that are responsible for the auditing the accounts of that institution (i.e. the external auditors of the CIF). A verification of the interim of the CIF shall provide an adequate level of assurance that those profits have been evaluated in accordance with the principles set out in the applicable accounting framework.

“Adequate level of assurance” involves at least a review of interim financial information by the external auditor of the CIF in order to express a conclusion whether, on the basis of the review, the interim financial information subject to the review have been prepared, in all material respects, in accordance with the applicable accounting framework. The review should also cover any material deviation from the accounting policies applied in the last audited financial statements. Please refer to relevant [EBA Q&A 2013 384](#).

- ii. Any foreseeable charge or dividend has been deducted from the amount of those profits.

The dividends to be deducted shall be the amount formally proposed or decided by the management body of the CIF or an estimation in accordance with the dividend policy of the CIF.

3. The verification of interim financial information by the external auditor of the CIF for the purpose of Art. 26(2) shall be at least the 'Independent auditors' report on review of interim financial statements' based on the international standard "International Standard on Review Engagements 2410, *'Review of interim financial information performed by the independent auditor of the Entity'*".
4. CIFs that apply to CySEC for a permission to include their interim profits in CET1 capital should submit to CySEC, via portal and under the section "*Application for permission as per Art. 26(2) of CRR for interim profits*", the following:
 - i. A confirmation letter from the CIF stating the below information:
 - The reporting period for which the CIF wishes to recognise as CET1 capital the verified profits
 - Profits as verified
 - Foreseeable charges/deductions (e.g. dividends)
 - The total CET1 prior and after the inclusion of verified profits
 - ii. The independent auditor's verification report with regards to the interim profits that the permission is requested [per par. 2(i) above].
5. It is clarified that interim profits, for which the permission of CySEC has not been granted, will not be eligible to be included in CET1 capital.

It should be noted that CySEC's permission is not needed for losses, whether interim or final. Losses must be deducted in full from own funds as soon as they are incurred.

Sincerely,

Demetra Kalogerou
Chairman Cyprus Securities and Exchange Commission