

TO : Cyprus Investment Firms (CIFs)
FROM : Cyprus Securities and Exchange Commission
DATE : May 5, 2022
CIRCULAR NO. : C508
SUBJECT : EBA Guidelines on internal governance under Directive (EU) 2019/2034 (EBA/GL/2021/14)

1. The Cyprus Securities and Exchange Commission (“CySEC”) wishes to remind Cyprus Investment Firms (“CIFs”) that the European Banking Authority (EBA), has published the revised Guidelines on internal governance (“[Guidelines](#)”) under Directive (EU) 2019/2034¹ (the “IFD”), which was fully incorporated and transposed into the [Prudential Supervision of Investment Firms Law of 2021](#) (the “Law”). The Guidelines, which were published on 15 March 2022, are intended to further harmonise CIFs’ internal governance arrangements, processes and mechanisms within the EU and are translated in all official languages of the EU.
2. These Guidelines apply to national competent authorities (NCAs) and CIFs that do not fall under section 3(3) of the Law and do not meet all of the conditions to qualify as small and non-interconnected investment firms under Article 12(1) of Regulation (EU) 2019/2033², on an individual and consolidated basis.
3. These Guidelines apply in relation to CIFs’ governance arrangements as required under the Law, including their organisational structure and the corresponding lines of responsibility, and also to the processes to identify, manage, monitor and report all risks that they are or might be exposed to.
4. Furthermore, these Guidelines specify the internal governance arrangements, processes and mechanisms that CIFs should implement in order to ensure their effective and prudent management.
5. In particular, the Guidelines provide further detail on how the IFD governance provisions should be applied, specifying the tasks, responsibilities and organisation of the management body and the organisation of CIFs, including the need to create transparent structures that allow for supervision of all their activities. The Guidelines also specify the requirements needed to ensure the sound management of risks across all three lines of defence, particularly the compliance function and independent risk management (second line of defence), where applicable, and the internal audit function (third line of defence, where applicable).

¹ Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU {OJ L 314 5.12.2019, p. 64}.

² Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 {OJ L 314, 5.12.2019, p. 1–63}.

6. These Guidelines have been developed on the basis of section 20 of the Law, which requires CIFs to have robust governance arrangements, including a clear organisational structure with well-defined, transparent and consistent lines of responsibility, processes and mechanisms.
7. The Guidelines have been developed in cooperation with the European Securities and Markets Authority (ESMA) and should therefore be read, taking into account and without prejudice to MiFID II requirements, the Commission Delegated Regulation (EU) 2017/565³ and the [Directive \(DI87-01\) for the Safeguarding of Financial Instruments and Funds belonging to Clients](#)⁴, in conjunction with the EBA guidelines on sound remuneration policies for investment firms, the joint EBA and ESMA guidelines on the assessment of the suitability of members of the management body and key function holders, the EBA guidelines on the supervisory review and evaluation process (SREP), the ESMA guidelines on certain aspects of the MiFID II compliance function requirements, the ESMA guidelines on product governance and the Regulatory Technical Standards on disclosures.
8. The Guidelines entered into force on 30, April, 2022.
9. CySEC has adopted these Guidelines by incorporating them into its supervisory practices and regulatory approach.
10. CIFs to which these Guidelines apply should take all necessary actions in order to ensure their compliance with the Guidelines.

Sincerely,
Dr George Theocharides
Chairman
Cyprus Securities and Exchange Commission

³ Commission Delegated Regulation (EU) 2017/65 supplementing Directive (EU) 2014/65 of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive

⁴ Which harmonised and implemented the provisions of the Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive (EU) 2014/65 of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits