



CYPRUS SECURITIES AND EXCHANGE COMMISSION

TO : **Investment Firms**
FROM : **Cyprus Securities and Exchange Commission**
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CIRCULAR No : **CI144-2008-02**
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SUBJECT : **Assessment of CIFs shareholders' suitability – Know your client procedures of CIF's clients**

The Cyprus Securities and Exchange Commission ('the Commission') wishes with the present circular to inform the Cypriot Investment Firms ('CIFs') of the following:

1. The circular dated 07.09.2007 with number IF(2007-12) is cancelled and replaced with the present one.
2. **Assessment of CIFs' shareholders' suitability**

2.1 According to the requirements for the granting of a CIF authorisation, which are mentioned in the 2007 Law which provides for the provision of investment services, the exercise of investment activities, and the operation of regulated market, the CIF must have suitable shareholders to ensure its sound and prudent operation.

2.2 Taking into consideration the above requirement, as well as the Commission's obligation to ascertain the CIFs' compliance with the said requirement at all times, the Commission clarifies that the CIFs are not allowed to have shareholders, who have issued or intend to issue bearer shares. The term 'shareholders' includes all the levels of ownership that are above the CIF.

2.3 The applications for the granting of a CIF authorization should comply with the contents of point 2.2 above. On the contrary, the Commission will consider that the applicant does not comply with the requirements of shareholders' suitability and the relevant application will be rejected.

3. Know your client procedures of CIFs' clients

3.1 In the case where the CIF has clients whose shareholders, with direct or indirect participation to them (at any ownership level above the clients), have issued or

intend to issue bearer shares, the CIF must follow the procedures described and receive all the necessary documents as mentioned in the Commission's directive regarding the prevention of money laundering ('the Directive').

- 3.2 As far as paragraph 2.7.2.3 of the Directive is concerned, which mentions that a confirmation is needed from a bank in Cyprus that it has under its possession the shares of the companies with bearer shares, it is noted that this confirmation is also allowed to be taken by credit institutions established in another Member State.
- 3.3 In the event that the CIF proceeds, on behalf of its clients, to transactions with counterparties determined by its clients, the said counterparties are determined as CIFs' clients and therefore the CIF must also apply to them the know your client procedures, as specified in the Directive.
- 3.4 In the events where there is no Registrar of Companies or any other similar source of retaining companies' information, the CIF must receive information to determine and verify its clients' identity on the basis of documents, data or information from a reliable and independent source, as specified in article 8 of the European Directive 2005/60/EC, which the Commission intends to adopt under its upcoming directive to be issued regarding the prevention of money laundering.

Yours sincerely

Georgios Charalambous
Chairman, Cyprus Securities and Exchange Commission

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