



ANNUAL REPORT 2011

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Chairwoman's Statement

In 2011, the Cyprus economy along with the international economy, had to face the consequences of the global financial crisis, coupled with those of the fiscal crisis in the Eurozone, a rising unemployment and the necessity to reduce the structural fiscal deficit. The difficult economic conditions in the domestic front mirrored, to a great extent, the marked uncertainty in international economic developments which were mainly due to the slowdown of growth in large economies such as the United States and the European Union (EU), growing public debt in the European member states, international fiscal imbalances and challenges in the banking sector in the developed economies.

Various economic events had an adverse effect on the state of the Cyprus economy, such as for example the destruction of the power generating unit in Vassiliko and the impairment of Greek government bonds. As a result, several banking institutions and private companies registered losses.

Reflecting therefore the domestic and international economic developments, the real GDP growth rate slowed down in 2011, in comparison to the recovery course of the Cyprus economy in 2010. Specifically, according to the Statistical Service of the Republic of Cyprus, the growth rate in 2011 was merely 0.5% compared to 1.1% in 2010, indicating a trend of decreased economic activity in Cyprus. Moreover, unemployment rates continue to rise sharply (7.8% at the end of 2011) whilst the fiscal deficit was around 6.3% of GDP, with the European Union sounding the alarm and asking for its reduction to under 3% of GDP by 2012.

This deterioration of economic conditions, coupled with the rapid aggravation of the debt crisis in Greece and the continuous downgrading of the Republic of Cyprus and Cypriot banks by international credit rating agencies, are exerting enormous pressure on fiscal Authorities, since the Republic of Cyprus was no longer able to raise capital from international markets on favourable terms, therefore restricting the State's access to international capital markets for borrowing purposes.

As a result of the bleak prospects for recovery of the international economy and the deepening of the debt crisis in the Eurozone, in 2011 the prices of financial instruments were highly volatile and stock exchange markets were characterised by instability and tension. The Cyprus stock exchange market was also inevitably affected. Both the Cyprus Stock Exchange and most international stock exchanges recorded low transaction volumes and volatility in the prices of listed securities due to decreased investor confidence. The general price index of the Cyprus Stock Exchange remained at low levels throughout 2011, closing at 295.94, reflecting a decrease of 71.95% compared to the closing rate of the previous year, as a result, amongst

others, of strong pressures over bank shares.

Despite the negative impact of the financial crisis and volatility in international transferable securities markets, Cyprus achieved in 2011 a remarkable performance in the sector of investment services and managed to maintain the vivid interest of foreign firms wishing to provide investment services in Cyprus. For example, the number of Cyprus Investment Firms licenced by the Cyprus Securities and Exchange Commission (CySEC) rose from 91 at the end of 2010 to 118 at the end of 2011. The many advantages of Cyprus as a business centre (favourable taxation, very good support services, etc.) as well as investor confidence in the regulatory and supervisory framework of Cyprus have, amongst others, contributed to this development.

The Cyprus regulatory and supervisory framework is harmonised with EU legislation in all respects, so as to fully reflect the European standards and new developments in the securities market. In 2011, the procedure for the transposition of the Directive on Undertakings for Collective Investment in Transferable Securities (UCITS IV) into the Cyprus Legislation was completed, the relevant draft Law was submitted to the House of Representatives and was enacted in June 2012. This reform aims to establish a modern and flexible regulatory framework, which will lead to the development of the sector of undertakings for collective investment in transferable securities in the Republic, based on an efficient supervisory regime. The development of mutual funds registered in Cyprus will create better prospects for the further development of Cyprus as a regional financial centre. Moreover, the Commission is currently preparing a draft law for Alternative Investment Fund Managers, which will transpose the European Directive on Alternative Investment Fund Managers into Cyprus Law.

In 2011, significant progress was made in the drafting of Laws on Fiduciaries, Management Consulting Service Providers and fraudulent investment operation (e.g. pyramids or Ponzi schemes). The actions underway to modernise the institutional framework include the drafting of a new Law to replace the International Collective Investment Schemes Law of 1999. Under the new regime, International Private Collective Investment Schemes currently supervised by the Central Bank of Cyprus will come under the supervision of the CySEC.

At European Union level, the reorganisation of the European System of Financial Supervision has been completed and on 1 January 2011 the three independent supervisory Authorities became operational in the sectors of transferable securities, banking institutions and insurance and occupational pensions. The same is true for the European Systemic Risk Board, which undertakes the macroprudential supervision of the Union's financial system. The new financial supervision architecture aims to promote stability in the Union's economic system, reduce the probability of a new financial crisis, identify a potential crisis in time and limit its impact. The CySEC is a member of the European Securities and Markets Authority (ESMA), one of the three European Supervisory Authorities and contributes to the establishment of a single European securities market characterised by integrity, transparency, credibility and efficiency, ensuring at the same time enhanced investor protection.

The Supreme Court's decision in Appeal no. 1589/2009, which held that the appointment of the members of the CySEC Board was contrary to the provisions of the Securities and Exchange Commission Law, has been an unfavourable development for the CySEC. The above decision caused difficulties to the Commission's operation and the decision making process, since the CySEC essentially remained, for a substantial period of time, without a Board and without

executives. This resulted in the accumulation of substantial workload whilst urgent matters, such as the approval and licencing of new Investment Firms, could not proceed. Therefore, the new Board appointed in September 2011 had to deal, amongst other challenges, with the review of the cases that had accumulated in the last five years, and which had been revoked following the Supreme Court's decision. After assuming its duties, the Board took decisions to mitigate the workload and examine, inter alia, pending cases on a priority basis.

As a result of the increased globalisation of financial markets, the continuous development of new and complex financial products and services and the use of state-of-the-art technology systems, the CySEC is faced with an increasing number of important challenges. The scope and extent of activities of certain organisations under its supervision is constantly growing and potential risks are not only complex but often difficult to identify in time. The supervisory framework therefore needs to be constantly assessed and improved, in order to be able to adapt to new realities and market developments.

In response to the challenges arising from new developments, the CySEC continues to assess and improve the regulatory framework which governs the securities market and sees to the timely harmonisation of Cyprus Law with new EU Directives. At the same time, the Commission is making efforts to improve its flexibility and efficiency through the simplification of procedures where possible.

Moreover, the enhancement and improvement of the quality of supervision over the Cyprus securities market has been the firm objective of the CySEC. To this end, the CySEC invests in the development of its human resources and provides its personnel with opportunities to participate in various training courses related to their duties, in an attempt to promote specialisation in the areas of inspection and supervision. Finally, the development of a number of projects currently under way, such as the Document Management System (DMS), the Transaction Reporting Exchange Mechanism (TREM), the Capital Adequacy System and the IF Database System will contribute towards better monitoring of the market and more efficient supervision.

In closing, I would like to express both my personal commitment and that of the new CySEC Board, for a new and broader vision for the Commission, which will extend beyond regulation, supervision and ensuring the implementation of legislation by all market participants, to include the encouragement of healthy competition and the development of initiatives and innovation in the securities markets. In this way, the Securities and Exchange Commission will contribute towards enhancing the reputation and credibility of Cyprus as an investment destination which, in turn, will lead to the development of the securities market and help economic recovery in general. The above is fully in line with the Commission's vision for "a fair, competitive and dynamic securities market, characterised by high level of investor protection, transparency and growth".

I would like to note in particular the contribution of the CySEC employees in the fulfillment of the Commission's objectives and extend my warmest thanks for their hard work. I would also like to express my appreciation and sincere thanks to the Vice-Chairman, the other members of the Board and the representative of the Governor of the Central Bank for their undivided and valuable support and assistance.

Demetra Kalogerou

Chairwoman of the Cyprus Securities and Exchange Commission



SECTION A

1. Administration and Organisation
2. Role
3. Vision and Strategic Objectives
4. Duties and Operations
5. Brief Historical Overview

1. Administration and Organisation

1.1 BOARD

The Cyprus Securities and Exchange Commission is administered by a five-member Board, consisting of the Chairman and Vice-Chairman, who provide their services on a full and exclusive employment basis, and three additional members. A representative of the Governor of the Central Bank of Cyprus attends the meetings of the Board and may request the inclusion of items on the agenda, take part in the discussions and express views, but has no right to vote.

The members of the Board are appointed by the Council of Ministers upon recommendation of the Minister of Finance for a five-year term. The term is renewable for one additional term.

Chairwoman

Demetra Kalogerou (since 15.09.2011)

George Charalambous (until 31.07.2011)



Mrs. Kalogerou was appointed Chairwoman of the Securities and Exchange Commission in September 2011. Mrs. Kalogerou was previously employed at the Cyprus Stock Exchange (CSE) as Senior Officer and her duties included the supervision of transactions in transferable securities and the various CSE markets, the monitoring of compliance of listed public companies with their continuous obligations such as the preparation of Annual Financial Statements and their compliance with the International Accounting Standards and the Code of Corporate Governance, the research and development of new products, as well as the promotion of financial markets. As a result of the above duties, during her fifteen years of employment with the CSE Mrs. Kalogerou developed an in-depth knowledge on all aspects of the securities market and acquired an extensive experience in matters relating to the smooth and orderly development of securities markets and investor protection. Mrs. Kalogerou holds a BSc in Economics and Business Administration from the University of Wales, an MSc in Economics of Public Policy the University of Leicester and an MPhil in Finance from City University Business School, UK.

Vice-Chairman

Andreas Andreou (since 28.09.2011)

Christina Christou (until 14.09.2011)



Mr. Andreas Christou was appointed Vice-Chairman of the Securities and Exchange Commission in September 2011. He has extensive work experience both in the legal and the broader financial sectors. He was the head of the legal department and Secretary of the Board of a large investment firm. From 2005 he served as Senior Legal Counsel in an investment firm and other companies under the same group. Mr. Andreou holds a Law degree and an MSc in European and International Commercial Law from the University of Leicester in England. In 1995 he became a Barrister, member of Lincoln's Inn in London, and in 1996 he joined the Cyprus Bar Association. He is also a founding member of the Cyprus Association of Directors.



Member

Evripides Polykarpou (since 15.09.2011)

Spyros Kokkinos (until 23.7.2011)

Dr. Evripides Polykarpou was appointed Member of the Board of the Cyprus Securities and Exchange Commission in September 2011. He is the Head of Administration and Personnel at the European University Cyprus and takes part in the Competitiveness Programme of the World Economic Forum in Davos (for Cyprus). He has, inter alia, provided his services to various projects financed by the European Union, the United Nations and local stakeholders. He has also served as member of the Board of Directors of a number of public companies. Dr. Evripides Polykarpou holds a BSc in Business Administration, an MBA in Finance and a PhD in Educational Administration.



Member

Christos Vakis (since 28.9.2011)

Menelaos Kyprianou (until 14.09.2011)

Mr. Christos Vakis was appointed Member of the Board of the Cyprus Securities and Exchange Commission in September 2011. Since 1999, he is the director of his own company Cymiva Management Consultants Ltd, a Company Consultants firm. He has served as Director in a number of public companies as well as in other Cypriot and foreign companies. He worked for Touche Ross & Co. in London and later became a Chartered Accountant. He then worked in Cyprus for the audit firm KPMG – Metaxas, Loizides, Syrimis & Co, from where he left as a Partner. From 1995 until 1998 he was the Managing Director of a private group of companies with operations abroad. Mr. Christos Vakis studied Economics at the University of Manchester.



Member

Andreas Christodoulou (since 29.9.2011)

Marios Moyseos (until 14.09.2011)

Mr. Andreas Christodoulou was appointed Member of the Board of the Cyprus Securities and Exchange Commission in September 2011 and is a Senior Officer at the Authority for the Supervision and Development of Cooperative Societies and more specifically at the Sector of Regulation of Cooperative Credit Institutions. Furthermore, Mr. Christodoulou worked at the Cyprus Securities and Exchange Commission as an Officer in the period 1996-1999. He holds a degree in Economics and has attended several seminars and training courses both in Cyprus and abroad on the regulation and supervision of credit institutions and the securities market.



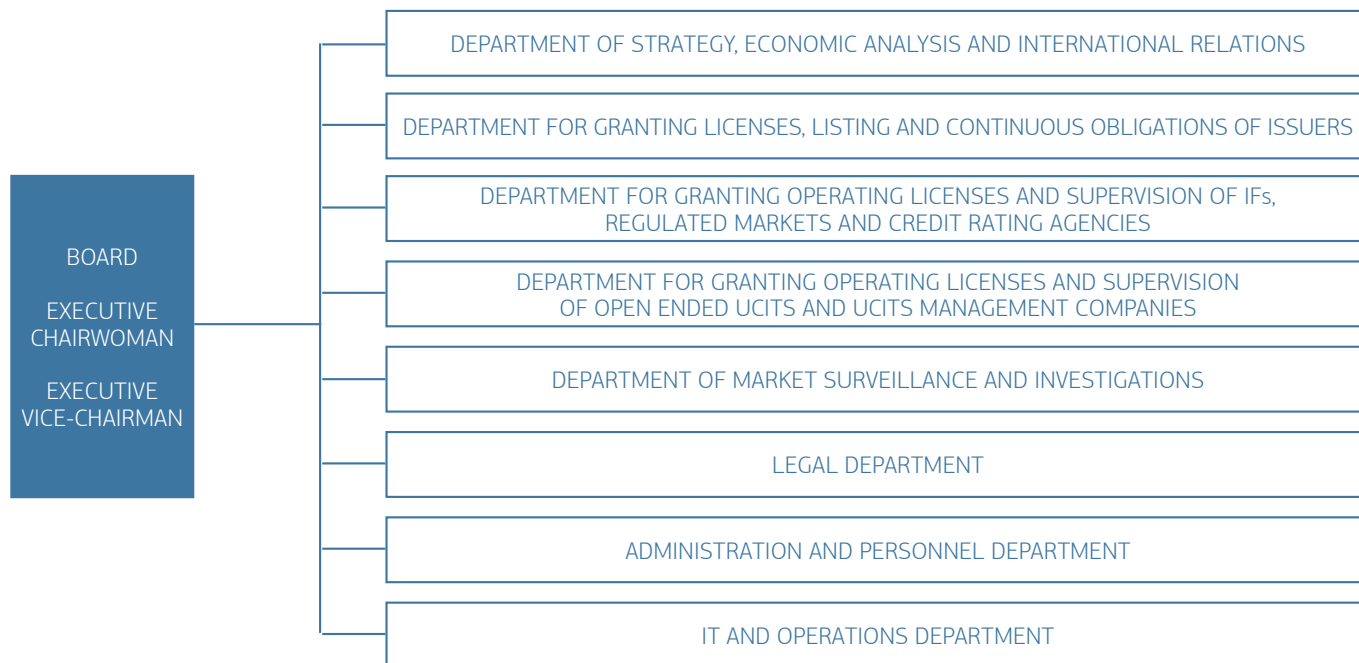
Representative of the Governor of the Central Bank of Cyprus

Elena Gregoriadou (since 20.6.2011)

Constantinos Trikoupis (until 19.06.2011)

Mrs. Elena Gregoriadou has been employed at the Central Bank of Cyprus since 1983 and has been appointed Representative of the Governor of the Central Bank of Cyprus to the meetings of the Board of the Cyprus Securities and Exchange Commission in June 2011. She worked at the Bank Supervision Department and was involved for several years in the licensing of offshore banks, financial firms and international collective investment schemes. She is currently the Head of the Licencing Section of the Central Bank of Cyprus. Mrs. Elena Gregoriadou holds a BSc and an MSc in Economics from the London School of Economics.

1.2 ORGANISATIONAL CHART



1.3 DEPARTMENTS

The Cyprus Securities and Exchange Commission is comprised of eight Departments as follows:

- (a) Department of Strategy, Economic Analysis and International Relations
- (b) Department for Granting Licences, Listing and Continuous Obligations of Issuers
- (c) Department for Granting Operating Licences and Supervision of IFs, Regulated Markets and Credit Rating Agencies.
- (d) Department for Granting Operating Licences and Supervision of Open Ended UCITS and UCITS Management Companies
- (e) Department of Market Surveillance and Investigations
- (f) Legal Department
- (g) Administration and Personnel Department
- (h) IT and Operations Department

1.4 PERSONNEL

At the end of 2011, the CySEC employed a total of 55 persons (45 in 2010), the executive Chairwoman and the executive Vice-Chairman, six senior officers, thirty-four officers (26 in 2010), eleven assistant secretarial officers and one office assistant (Table 3).

Table 3: Personnel per Department

Department	2011			
	Senior Officers	Officers	Assistant Secretarial Officers	Office Assistant
Strategy, Economic Analysis and International Relations	1	2		
Granting of Licences, Listing and Continuous Obligations of Issuers	1	5	1	
Granting of Operating Licences and Supervision of IFs, Regulated Markets and Credit Rating Agencies ¹	1	12	3	
Granting of Operating Licences and Supervision of Open Ended UCITS and UCITS Management Companies	1	2		
Investigations and Market Surveillance	1	5	2	
Legal ²	1	4		
Administration and Personnel		2	4	1
IT and Operations ³		2	2	
Total	6	34	12	1

2. Role

Under the Cyprus Securities and Exchange Commission Law of 2009, the CySEC is responsible for ensuring the smooth operation and orderly development of the securities market and monitoring the transactions in transferable securities carried out in the territory of the Republic of Cyprus. The scope of the supervision also extends outside the Republic, in respect of transactions carried out by Investment Firms which operate under the supervision of the CySEC. The CySEC exercises the powers and duties entrusted to it by the law and its task is to study, suggest measures to other competent Authorities and take measures to safeguard the integrity of stock exchange transactions and generally to ensure the efficiency of the securities market and its fair operation.

In order to operate smoothly, effectively and efficiently and ensure, inter alia, adequate investor protection, a securities market must have rules of operation and generally dispose of an appropriate and adequate legislative framework. This framework governs the operation of both the securities market as such and its operators, such as for example the issuers of securities (public companies), Investment Firms, investment funds as well as investors. The supervision of compliance with these rules and the institutional framework in general is undertaken by the CySEC, which has the duty to monitor the market and take both preventive and repressive measures to attain the legislative aims and purposes.

¹ In 2011, the Department for Granting Operating Licences and Supervision of IFs, Regulated Markets and Credit Rating Agencies employed one Assistant Secretarial Officer under contract (one in 2010)

² In 2010, the Legal Department employed one Officer under a services contract

³ In 2010, the IT and Operations Department employed one Officer under a services contract

3. Vision and Strategic Objectives

In the first months following its appointment, the new Board of the CySEC made a number of changes in the operation of the Commission. In the context of these changes, which aim to modernise its operation and improve its efficiency, the Commission's vision has been redefined as follows:

"A fair, competitive and dynamic securities market, characterised by high level investor protection, transparency and growth".

Having this vision as a guide, the CySEC is called to carry out its mission, which includes ensuring and maintaining the operation of a fair, integral, credible, efficient and transparent securities market, contributing towards providing correct and comprehensive information and financial education to investors, the methodical development and improvement of the competitiveness of the securities market and towards upgrading the reputation and credibility of Cyprus as an international financial centre.

In view of implementing its mission, the Commission is called to act within the framework defined by the following pillars:

- **We work** with full dedication to provide high level investor protection.
- **We promote** an efficient and internationally competitive securities market.
- **We act** based on meritocracy, transparency and efficiency.
- **We promote** the role of Cyprus as a financial centre in the European and international environment.
- **We work** in a spirit of positive thinking, open horizons, respect and cooperation.

In order to achieve its vision, implement its mission and also meet its legal obligations, the CySEC focuses on the implementation of five Strategic Objectives as follows:

1. The ongoing reform of the regulatory and supervisory framework which governs the Cyprus securities market, based on the EU Directives and Regulations and international practice

The implementation of this strategic objective will ensure high level investor protection and the smooth operation of the market and will also guarantee that the regulatory and supervisory framework of the Cyprus securities market is in compliance with the European acquis.

2. Ensuring full compliance of the supervised institutions with their obligations under the relevant regulatory framework

The implementation of this strategic objective will result in the efficient supervision of the supervised institutions and will contribute towards enhancing market confidence in the financial system of Cyprus.

3. Contribution to the continuous upgrading of the investor training system

The implementation of this strategic objective will improve the level of knowledge of investors on investment issues and their ability to take sound investment decisions.

4. Contribution towards promoting Cyprus and attracting new healthy and dynamic financial institutions

The implementation of this strategic objective will contribute towards enhancing the reputation and credibility of Cyprus as an investment centre and will highlight its prospects of becoming an international financial centre.

5. The continuous improvement and modernisation of the operation of the Cyprus Securities and Exchange Commission

The implementation of this strategic objective will enhance the performance, efficiency and transparency in the Commission's operation and procedures, aiming to reduce bureaucracy and time needed for the completion of tasks.

4. Duties and Operations

The main duties and responsibilities of the Cyprus Securities and Exchange Commission are set out in Article 25 of the Law which Regulates the Structure, Duties, Powers, Organisation of the Securities and Exchange Commission and other Related Matters (L73(I)/2009) and may be summarised as follows:

- To grant operating licences to Investment Firms (IFs), Regulated Markets, Credit Rating Agencies, Undertakings for Collective Investment in Transferable Securities (UCITS) and UCITS Management Companies, to suspend and revoke the said licences.
- To supervise and control the operation of the Cyprus Stock Exchange and the organised markets in the Republic and the transactions carried out in such markets.
- To supervise and control companies whose securities are listed on a regulated market, Investment Firms, Credit Rating Agencies, as well as UCITS and their Management Companies.
- To carry out controls in companies whose securities are listed on a regulated market, in Investment Firms, in Credit Rating Agencies as well as in UCITS and their Management Companies.
- To carry out all necessary investigations in view of the exercise of its duties under the law as well as on behalf of competent foreign Authorities.
- To request and collect information which is necessary or conducive to the exercise of its duties under the law and to demand by written request the provision of information from any natural or legal person or organisation deemed to be in a position to provide the required information.
- To impose the administrative and disciplinary sanctions provided by the law.
- To require the cessation of practices which are contrary to the laws under its supervision.
- To apply to a competent court for the issue of a seizure, charging or freezing order or an order to prevent alienation or transactions involving assets.
- To issue regulatory Directives and Decisions.
- To cooperate and exchange evidence and information with other public Authorities in the Republic, with competent foreign supervisory Authorities and with other organisations.

In addition to the above duties, the CySEC has also been entrusted with powers and duties under the following laws:

- The Public Offer and Prospectus Law of 2005
- The Insider Dealing and Market Manipulation (Market Abuse) Law of 2005
- The Public Takeover Bids Law of 2007
- The Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law of 2007

The laws which pertain to the duties and responsibilities of the CySEC are presented in detail in Part D – Annex 1.

The main operations of the CySEC include the following:

- Monitor the compliance of companies with securities listed on the Cyprus Stock Exchange or other regulated markets and whose member state of origin is the Republic of Cyprus, with their continuous obligations in general and specifically with those related to annual accounts, preliminary results, corporate governance issues, the timely and full disclosure of material information, etc.
- Approve prospectuses for the public offer of transferable securities or their admission to trading on a regulated market
- Supervise public takeover bids
- Grant operating licences to Cyprus Investment Firms (CIFs) or third country IFs for the establishment of a branch in the Republic and monitor their compliance with the

provisions of the law which governs their operation

- Grant operating licences to regulated markets and monitor their compliance with the provisions of the law which governs their operation
- Grant licences to Credit Rating Agencies and monitor their compliance with the provisions of the law which governs their operation
- Exercise the CySEC's duties emanating from the law to prevent and combat the legalisation of proceeds from illegal activities
- Grant operating licences to UCITS, UCITS Management Companies or third country Management Companies and monitor their compliance with the provisions of the law which governs their operation
- Examine notifications for the cross-border provision of services and the establishment of a branch by Management Companies of EU member states in the Republic
- Examine notifications and applications for the disposal through Representatives in the Republic of units of foreign UCITS and supervise and implement the Open Ended Undertakings of Collective Investment in Transferable Securities (UCITS) and other Related Matters Law
- Carry out investigations on cases concerning, inter alia, IFs or companies with securities listed on the Cyprus Stock Exchange/on a regulated market
- Monitor the stock exchange market and transactions
- Supervise and implement the Law which provides for insider dealing and market manipulation (market abuse)
- Matters relating to the review and/or reform of the laws which govern the securities market and study, preparation and submission of draft laws
- Study, preparation and issue of Directives under the law regarding both the CySEC and the securities market
- Administrative matters relating to the operation of the CySEC
- Carry out studies on matters regarding the CySEC and the securities market in general
- Inform and educate investors on matters relating to the securities market
- Participate in national and European groups and technical committees dealing with matters relating to the duties of the CySEC.

5. Historical Background

5.1 PERIOD BETWEEN 1996 - 2000

The CySEC was initially established in 1996 by virtue of Article 8 of the Securities and the Cyprus Stock Exchange Laws and had been characterised by the Law Office of the Republic as a "Collective Administrative Supervisory Body". It was a five-member Commission comprising the Government Commissioner, the Central Bank Representative and three other members. All members were non-executive.

It should be noted that until 2000 there existed only two Laws governing the securities market, the Securities and the Cyprus Stock Exchange Laws and Regulations (including the Public Takeover Bids and Company Mergers Regulations), and the Possession, Use and Disclosure of Privileged Confidential Information Law.

Until the end of 1999, the CySEC remained understaffed employing only four persons (three officers and one assistant secretarial officer).

5.2 PERIOD BETWEEN 2001 - JULY 2009

The CySEC was established on 20th April 2001 pursuant to the provisions of the Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Law, with a clearly defined structure, responsibilities, powers and organisation. As a result, the old Commission

was abolished and its competences were transferred to the new CySEC. The new CySEC is a public corporate body. It is assigned the responsibility of supervising the securities market, ensuring its smooth operation and methodical growth as well as monitoring the transactions in transferable securities carried out in the Republic. The CySEC is an independent public supervisory authority and is one of the five⁴ Authorities supervising the financial sector in Cyprus. On the basis of the new Law, the CySEC is governed by a five-member Board, of which the Chairman and the Vice-Chairman provide their services on a full time and exclusive basis.

5.3 PERIOD BETWEEN JULY 2009 – TODAY

On 10 July 2009, the new Cyprus Securities and Exchange Commission Law of 2009 (Law 73(I)/2009) (the “Law”) came into force abolishing the Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Laws of 2001 to 2007.

Contrary to the past, the CySEC now has the necessary tools (both dissuasive and repressive) to ensure the compliance of the supervised entities with the relevant legislative framework, the supervision and enforcement of which, has been assigned to it. When a violation is established, the CySEC has now the power to impose sanctions. The legislator, having recognised the severity of some types of violations, has provided for the power to impose very stringent administrative and criminal sanctions.

Further to the above, under the new Law, the CySEC has now the following significant new powers:

- To proceed with on-the-spot confiscation of books and documents in case their holders refuse to avail them to the CySEC;
- To request the cessation of a practice that is contrary to the legislation under its supervision;
- To apply to the competent court of law for the issue of an order to block, encumber, freeze or prevent the alienation or the transaction involving certain assets;
- To collect information and conduct inspections and investigations on behalf of other supervisory Authorities abroad.

⁴ The five Authorities consist of the Central Bank of Cyprus, the CySEC, the Insurance Companies Control Service, the Supervision and Development of Cooperative Societies and the Supervisory Authority for Occupational Retirement Funds.



SECTION B

1. International Economic and Financial Developments
2. Changes in the European Supervisory and Regulatory Framework
3. Developments in the Cyprus securities market
4. Developments in the Cyprus Securities and Exchange Commission

1. International Economic and Financial Developments

In 2011, the international economy was characterised by economic recession due to the adverse developments that contributed to the deceleration of the economic activity worldwide. According to the data of the International Monetary Fund (IMF), the growth rate decreased at 1.6% for advanced economies (3.2% in 2010) and at 6.2% for emerging and developing economies (7.3% in 2010) (IMF Report – ‘World Economic Outlook Update’, January 2012). The deceleration was more noticeable in advanced economies while the economic activity in emerging and developing economies, though decelerated in 2011, remained intense due to the emerging economies of Asia and primarily China and India.

The main factor of deterioration of the international environment was the increase of uncertainty in international markets due to the deepening crisis of public debt in various countries of Europe as well as the political weakness to timely, efficiently and viably manage this crisis. The increase in uncertainty caused aggravation of the tensions in financial markets and resulted in major decline in international stock exchanges as well as in consumer and investment expenditure mainly in the Euro zone. Furthermore, the prolonged discussions on the amount of the limit of government borrowing in the USA caused agitation to the markets and deteriorated consumers’ and business’ trust. Also, the major natural disasters in Japan during the first half of 2011 somehow halted the growth rate of world economy due to the disruption caused to the supply chains of many branches of international trade. Lastly, civil unrest and armed uprising in some oil-producing countries led to political instability in the Middle East and to a rise in the price of crude oil internationally, thereby affecting global industrial production.

As a result of the above, the markets clearly became much more cautious and investor confidence fell sharply. Therefore, the governments of the Eurozone and the stakeholders involved in the formulation of policy measures at European Union level, focused on taking measures to restore confidence in terms of the viability of public finances and on maintaining favourable financial conditions to facilitate the continuation of recovery. However, the markets were nervous when facing government interventions, which aimed at controlling debt crisis since they considered the measures insufficient and ineffective and this resulted in bond yields in several countries of the Euro zone reaching very high levels.

In 2011, most international stock exchange indices experienced negative changes due to the international expansion of the impact of financial crisis. Characteristically, the Eurostoxx 50 index fell by 20% compared to 2010. In addition, as regards the banking sector, the EuroStoxx Banks index decreased by approximately 40%, while the Standard & Poor’s (S&P) Banking Index decreased by 10% worldwide, as American banks were less exposed to the market of European government bonds (ESMA Annual Report 2011). The tensions on financial markets and the increase of investors’ reluctance for high risk investments, prompt investors to liquidate shares and invest their funds in alternative investments.

Due to the difficult economic conditions and the continued instability on financial markets, intense action is expected in the near future as regards the reform of legislations governing financial services in the EU, especially in the securities market sector.

2. Changes in the European Supervisory and Regulatory Framework

2.1 EUROPEAN SYSTEM OF FINANCIAL SUPERVISION

The radical review of financial supervision in Europe over the past years as a result of the financial crisis of 2008 caused substantial changes in the regulatory and supervisory framework many of which were implemented in 2011. These changes aimed at creating a more efficient, more integrated and more viable European supervisory system.

On January 1st, 2011, the European Union set in operation three independent European Supervisory Authorities (ESAs) for the securities, banking and insurance sectors. This is a genuine attempt by the European Union to shield markets from a number of potential risks which cause a threat to the financial stability and integrity of the markets. Their main aim is the elimination of inconsistencies in the implementation of European Legislations by the EU Member States and the creation of a uniformly supervised European financial market. At the same time, in January 2011 a very significant new body, the European Systemic Risk Board (ESRB) was set in operation in view of monitoring and assessing potential threats to the financial stability across the EU and providing an early warning in order to address them.

2.2 EUROPEAN SECURITIES AND MARKETS AUTHORITY

The European Securities and Markets Authority (ESMA) is one of the three European Supervisory Authorities and has replaced the Committee of European Securities Regulators (CESR). CESR operated until 2010 as an advisor of the European Commission on policy issues as regards securities market legislation and on issues of improvement of coordination amongst European Securities Regulators and ensuring a consistent and timely implementation of Community legislation in Member States.

ESMA's role is to contribute to safeguarding the stability of the EU financial system through ensuring the integrity, transparency, efficiency and smooth operation of securities markets as well as enhancing investors' protection. ESMA's works on securities legislation contribute to the development of a single regulations manual in Europe. This serves two purposes: firstly, it ensures the consistent treatment of investors across the European Union, enabling an adequate level of protection for investors through effective legislation and supervision. Secondly, the enactment of harmonised regulatory technical standards in financial services promotes a level playing field in the provision of investment services.

Therefore, ESMA fosters supervisory convergence amongst supervisory Authorities and amongst financial sectors, in close cooperation with the other two competent Authorities, namely the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). The three European Supervisory Authorities are also responsible for the coordination of the actions of national supervisory Authorities and for the adoption of emergency measures in case of a crisis.

The heads of the Supervisory Authorities of all EU Member States participate in the ESMA's Board of Supervisors. Cyprus is currently represented by the Chairwoman of the Cyprus Securities and Exchange Commission.

2.3 EUROPEAN REGULATORY FRAMEWORK

The European Commission, in response to the need to deal with the impact of the financial crisis and the new challenges which arise, has proceeded in 2011 with the promotion of new

Directives and Regulations as well as the review of several existing legislations governing the operation of securities markets in view of rendering the financial markets more efficient and transparent.

For example, the European Commission proposed on November 15th 2011, an amendment to the regulation on Credit Rating Agencies (CRAs), which constitutes an effort to deal with certain issues, amongst of which is the risk of over-reliance on credit ratings and the risk arising from the reward system of credit rating agencies.

In addition, in the context of the efforts to improve the transparency and supervision of less regulated markets, including derivative markets, the European Commission submitted a proposal in October 2011, for the amendment of the Markets in Financial Instruments Directive (MIFID) as well as of the proposal for Markets in Financial Instruments Regulation (MIFIR) for the amendment of European Market Infrastructure Regulation (EMIR) over the counter derivative transactions, central counterparties and trade repositories. With the new framework, the supervisory powers of the regulatory Authorities are enhanced and clear rules of operation are set out for all trading activities. Specifically, the proposal for MIFIR introduces new rules for the disclosure to the public of new transactional data, transaction reporting, the mandatory trading of product derivatives in organised trading venues, the non-discriminatory access to clearing systems, the intervention on products and derivative positions management as well as the provision of services by third country firms without a branch.

On October 20, 2011, the European Commission issued a proposal for a Regulation on insider dealing and market manipulation –the Market Abuse Regulation (MAR)– as well as a Directive on criminal sanctions for insider dealing and market manipulation – the Market Abuse Directive (MAD).

The proposal for the Market Abuse Regulation aims to update and enhance the existing framework in order to keep pace with market developments and cover the new trading platforms and technologies, which lead to new possibilities for market manipulation. The new supervisory framework will strengthen the fight against market abuse across commodity and related derivative products, reinforce the investigative and administrative sanctioning powers of regulators and reduce the administrative burdens on SME issuers.

The proposed Market Abuse Directive on criminal sanctions for insider dealing and market manipulation requires Member States to take the necessary measures to ensure that the criminal offences of insider dealing and market abuse are subject to criminal sanctions. Member States will also be required to impose criminal sanctions for inciting, aiding and abetting market abuse as well as for attempts to commit such offences. The Directive complements the proposal for a Regulation on market abuse, which improves the existing EU legislative framework and reinforces administrative sanctions.

On 25 October 2011, a proposal for a Directive was submitted to the European Parliament and the EU Council to amend the previous directive for the harmonisation of transparency requirements in relation to information on issuers whose securities have been listed for trading on a regulated market. The proposed review of the Directive on transparency aims to improve the existing framework in order to simplify certain provisions for issuers, increase legal clarity and efficiency of the existing transparency regime. The proposal is consistent

with the objective of maintaining and, where required, improving the level of investor protection provided for by the Directive and ensuring the adequacy and usefulness of the information disclosed for investment purposes at an acceptable cost.

On 16 November 2011, ESMA published its final technical advice on the detailed rules that will form the basis for the European Alternative Investment Fund Managers Directive (AIFMD). The European Directive on AIFM must be aligned to the national law of EU Member States by 22 July 2013. The aim of the European Directive on AIFM is to create a comprehensive regulatory and supervisory framework for managers of alternative investments (private equity firms, mutual funds, real estate funds, commodity funds and all other funds not covered by the UCITS Directive) at European level. ESMA has prepared a detailed technical advice at the request of the European Commission, which covers four main sectors related to (a) general provisions for managers, authorisation and operation, (b) governance issues of AIFM trustees, (c) transparency and funding requirements, and (d) new requirements for third countries.

The European Commission submitted on 7 December 2011 a proposal for a European Venture Capital Funds Regulation (Eureka) and a European Social Entrepreneurship Funds Regulation (EuSEF). Venture capitals is one way of financing newly established businesses under which the investor acquires a portion of the company's share capital as consideration for the provision of financing. Therefore, promoting funds with the designation «European Venture Capital Funds» aims to facilitate the access by newly established businesses to financing. The proposal for a Regulation on «European Venture Capital Funds» also aims to foster the financing of social entrepreneurship, since these funds invest in businesses that have a positive social impact and have set social business objectives instead of being only interested in maximising their profits.

2.4 PROPOSAL TO IMPOSE TAX ON FINANCIAL TRANSACTIONS IN THE EUROPEAN UNION

In 2011, following a recommendation of the European Commission in September 2011 for the imposition of tax on financial transactions in financial instruments between financial institutions, when at least one of the parties is in the EU, it was requested by the national supervisory Authorities and other market operators to submit their positions. The Proposal of the European Commission calls for the imposition of a minimum tax of 0.1% on transactions in shares and bonds, and a 0.01% on transactions in derivatives. The official position of the Cyprus Securities and Exchange Commission is that the imposition of tax on financial transactions in the EU will have a negative impact on the activities of companies providing investment services in the EU and Cyprus in particular, which will outweigh any benefits which may arise from such implementation. We believe that the proposal of the European Commission for an EU-wide financial transaction tax does not take into account the risk that enterprises will transfer the volume of their transactions in financial markets outside the EU and outside the European Economic Area (EEA). For some Member States including Cyprus, the transactions of these companies constitute the majority of transactions. Undoubtedly, the execution of financial transactions in Europe will become more expensive resulting in a tax burden over time, which will possibly be shifted to consumers of financial products through higher transaction fees. In addition, the Cyprus Securities and Exchange Commission believes that such taxes will reduce liquidity in financial markets while at the same time it is unlikely to generate the revenue expected from their imposition. In short,

the Cyprus Securities and Exchange Commission would agree to the imposition of tax on financial transactions on a global and not only European basis.

2.5 PROHIBITION OF SHORT SELLING IN FINANCIAL INSTRUMENTS

In August 2011, following a relevant communication of ESMA, which proposed a harmonised legislative action in relation to the practice of short selling transactions in financial instruments in the EU, several Member States proceeded with the partial or complete temporary prohibition of the use of short selling. This is a preventive measure which was adopted on an extraordinary basis due to the extreme uncertainty and intense volatility that characterised the financial markets and which was exacerbated by the tense climate created in public debt markets of various EU Member States. Prohibition stems from the requirements of the European Market Abuse Directive prohibiting the disclosure of information that gives a false or misleading picture in relation to financial instruments, as is the case in dissemination of rumours and false or misleading news. While under normal circumstances the practice of short selling enhances market liquidity and contributes to a more efficient pricing of financial instruments, in periods of intense volatility in the markets, abuse of the practice of short selling is observed. This results in the increase of downward pressures on prices through the dissemination of ominous expectations for the course of the market, and therefore, it acts as a factor for market destabilisation and spread of systemic risks.

On 14 March 2012, Regulation 236/2012 of the European Parliament and the European Council was adopted with the aim of developing a common legislative framework in relation to the practice of short selling in financial instruments and some aspects of Credit Default Swaps (CDS). The Proposal for the adoption of this Regulation was submitted by the European Commission in September 2010. The main objectives of the adoption of the said Regulation is to create a harmonised framework for coordinated action at European level, increase transparency and reduce risks in order to ensure the smooth operation of the internal market. Under the new Regulation, the national regulatory Authorities acquired clear powers as regards the restriction or temporary prohibition of short selling in financial instruments, provided they are coordinated by ESMA. Lastly, according to the new supervisory framework, ESMA may, if certain requirements are met, take provisional measures with immediate effect and power throughout EU to restrict or prohibit short selling. Regulation 236/2012 shall enter into force on 1 November 2012.

2.6 CREDIT RATING AGENCIES

The purpose of Credit Rating Agencies (CRA) is to provide independent opinions on the likelihood of insolvency of enterprises, governments and a wide range of financial instruments, and these ratings are used by investors, issuers, borrowers and governments. Therefore, despite the serious weaknesses of the methods, independency and quality of CRA ratings that surfaced along with the global financial crisis of 2008, they continue to play a significant role in financial markets.

In 2011, there were several amendments to the legislative regime governing the Credit Rating Agencies and, namely, to the European Regulation (EC)1060/2009 of the European Parliament and the Council which had come into full force in December 2010. The most significant amendment to the said Regulation was issued on 11 May 2011, under which exclusive supervisory powers over CRAs operating in the EU were assigned to ESMA in order

3. Developments in the Cyprus securities market

to concentrate and simplify their registration and supervision at European level. However, certain specific supervisory responsibilities associated with the use of credit ratings by Member States entities, remain the responsibility of national competent Authorities, which are expected to cooperate closely with ESMA and proceed to supervisory controls commissioned by ESMA.

3.1 LEGISLATIVE FRAMEWORK

3.1.1 Harmonisation of the Legislation on the Undertakings for Collective Investments

In 2011, the harmonisation process of the Cyprus Legislation with the European Directive 2009/65/EC (UCITS IV) of the European Parliament and Council on the coordination of legislative, regulatory and administrative provisions relating to some Undertakings for Collective Investment in Transferable Securities (UCITS), which replaced Directive 85/611/EEC on the coordination of legislative, regulatory and administrative provisions relating to Undertakings for Collective Investment in Transferable Securities (UCITS) was completed. The relevant Draft Law was submitted to the House of Parliament and enacted into Law in June 2012.

As a result, the existing UCITS Law has been replaced by the new Law on Open-Ended Undertakings for Collective Investments (UCIs). Additionally, the CySEC has proceeded with the issue of a number of new Directives in order for the Implementing Measures of the new European Directive to be transposed into Cyprus national law (UCITS IV).

The new Law on Open-Ended Undertakings for Collective Investments (UCIs) radically reforms the UCITS legislation in terms of structure, organisation and operation of open-ended undertakings for collective investments in transferable securities and other liquid financial assets, their investment policy, their tax regime, the supervisory competence of the CySEC and other related issues. This reform aims to create a modern and flexible regulatory framework that will facilitate the development of the sector of open-ended undertakings for collective investments in transferable securities in the Republic, under an effective system of supervision.

3.1.2 Draft Law on Alternative Investment Fund Managers

The Ministry of Finance in cooperation with the CySEC proceeded with the assignment of the preparation of the Draft Law on Alternative Investment Fund Managers.

The Draft Law on Alternative Investment Fund Managers transposes Directive 2011/61/EU of the European Parliament and the Council into the law of the Republic. The said Directive covers the entire sector of alternative investment funds which includes, inter alia, hedge funds, property investment funds, private equity funds, etc. The scope of application of the Directive is defined with reference to that of Directive 2009/65/EC on undertakings on collective investment in transferable securities in the sense that alternative investment funds are those not characterised as undertakings for collective investments in transferable securities. The incorporation of the provisions of the Directive in the national laws should be completed by July 2013.

The aim of the Directive is to establish, at European Union level, common general principles of organisation and operation of alternative investment fund managers that will have a

passport allowing them to dispose units of the alternative investment funds of the European Union they manage to professional investors in the European Union on a cross-border basis by abiding to a certain notification procedure.

The Directive does not harmonise the regime of the alternative investment funds themselves. The aim of the Commission is to draw a new modern Law which will replace the International Collective Investment Schemes Law of 1999, supervised by the Central Bank of Cyprus. Under the new regime, the International Private Collective Investment Schemes shall be placed under the supervision of the Cyprus Securities and Exchange Commission.

Upon regulation of the regime of alternative investment funds, the institutional framework for the investments funds which may form the cornerstone for the development of the Cyprus Investment Fund sector will be concluded.

3.1.3 Draft Law on the Regulation of Companies offering Administration and Trustee Services for Private Entities and Related Matters

In January 2011, the CySEC released a Consultation Paper regarding the Draft Law on the Regulation of Companies offering Administration and Trustee Services for Private Entities and Related Matters. The issue of regulating Companies offering Administration and Trustee Services for Private Entities has been subject to debate and deliberation in the past. In view of the anew preparation of the Draft Law by the CySEC, it was deemed necessary to repeat the consultation process with the interested parties. On the basis of the proposed Draft Law, the administrative services and the persons entitled to offer such services are defined therein.

3.2 MARKET PARTICIPANTS

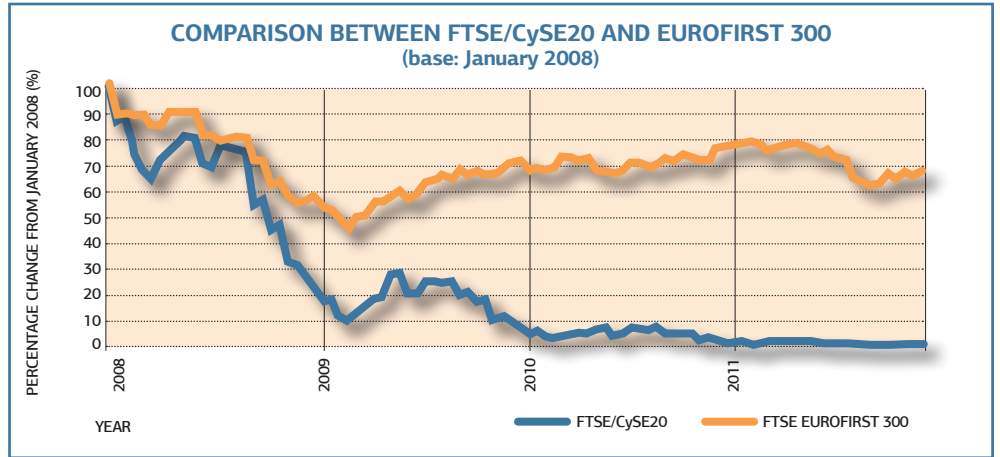
As a result of the international financial crisis and the major reclassifications made at European level, the number of undertakings supervised by the CySEC has increased significantly. The main developments as regards the undertakings supervised by the Cyprus Securities and Exchange Commission are mentioned below.

3.2.1 Cyprus Stock Exchange

The CySEC supervises the only licensed regulated market operating in the Republic of Cyprus in the past years, i.e. the Cyprus Stock Exchange (CSE). In addition, the CySEC supervises the CSE as a market operator which operates a Multilateral Trading Facility (MTF).

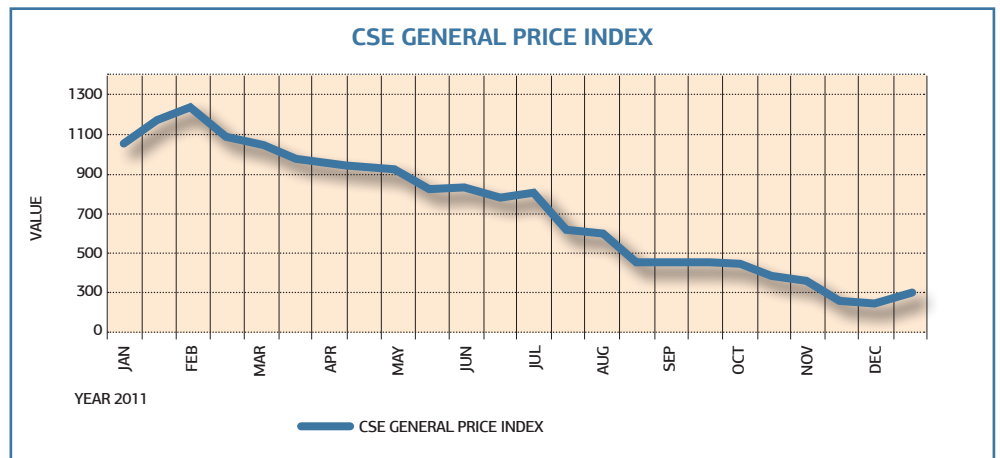
In 2011, the transferable securities market had a declining trend. At the end of the year, the capitalisation of the Cyprus Stock Exchange (securities only, excluding the investment firms market), rose to 2.1 billion Euro compared to 5 billion Euro at the end of 2010, i.e. registering a decrease of the order of 56.86% from the previous year. During 2011, the FTSE/CySE20 index, which consists of 20 selected securities that constitute a representative sample of the Cyprus stock market, showed a marked declining trend (Graph 1). This decline is in contrast with the trend of share prices in Europe, as shown in the graph presentation of the changes of the FTSE Eurofirst 300 Index in Graph 1.

Graph 1



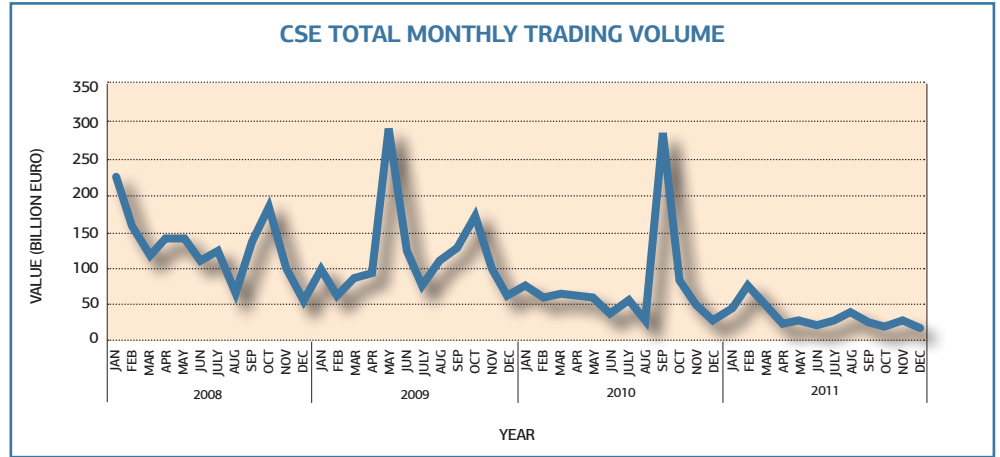
As expected as a result of the adverse financial conditions which prevailed in general in the Cypriot economy during 2011, the general CSE price index also showed a marked declining trend, closing at 295.94 units (Graph 2).

Graph 2



The adverse climate, which resulted in the undermining of investor confidence, led to a decrease in the prices of transferable securities. The decrease in the prices was also reflected in the turnover of the stock exchange market. The year’s turnover amounted to 0.3 billion Euro, representing an annual decrease of the order of 55.63% compared to the turnover in 2010 which had amounted to 0.8 billion Euro. Furthermore, the monthly total volume of transactions on the CSE in Euro in 2011 marked a significant decline, with the total monthly volume of transactions for December amounting to 20,159,154 Euro. (Graph 3).

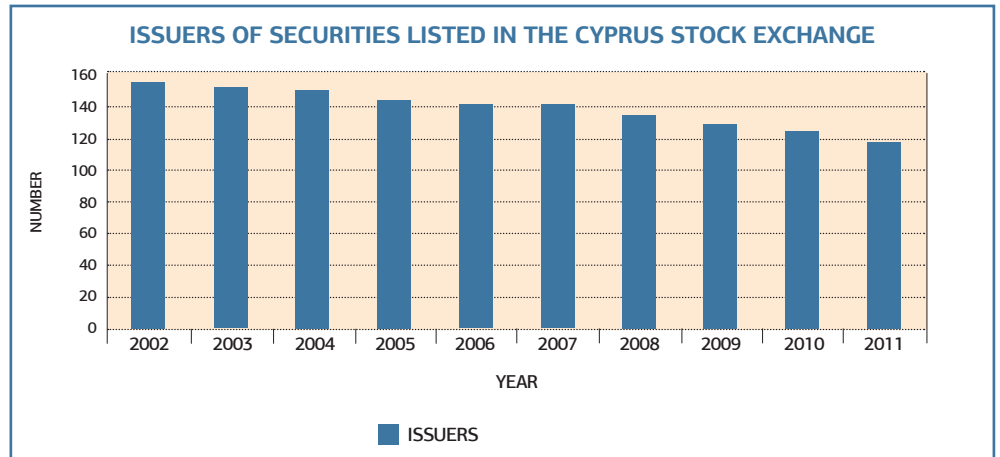
Graph 3



3.2.2 Issuers of Securities Listed on the Cyprus Stock Exchange

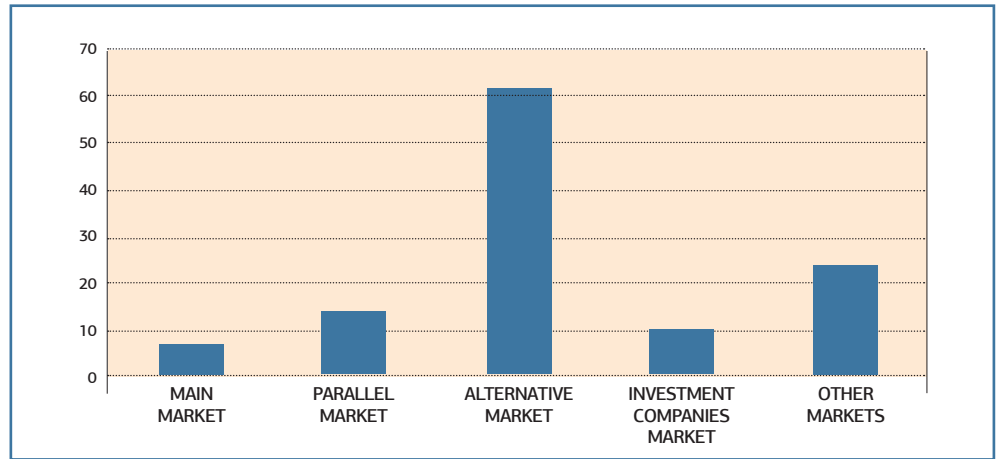
The number of companies with securities listed on the Cyprus Stock Exchange whose home Member State is the Republic of Cyprus and are subject to supervision by the CySEC was 117 by the end of 2011. This number has shown a declining trend since the end of 2002, at which time there were 154 companies (Graph 4). This is mainly due to the increased number of acquisitions and the consequent delisting of the securities of the acquired companies from the CSE.

Graph 4: Issuers of securities listed on the Cyprus Stock Exchange



It should be noted that the number of issuers for 2011 does not include 10 companies listed on the Multilateral Trading Facility (Emerging Companies Market – «ECM») in operation since March 2010. Also, the number of issuers for 2011 does not include 10 companies which are subject to the supervision of the CySEC and their home Member State is the Republic of Cyprus, but the securities they issued are listed on regulated markets of other Member States.

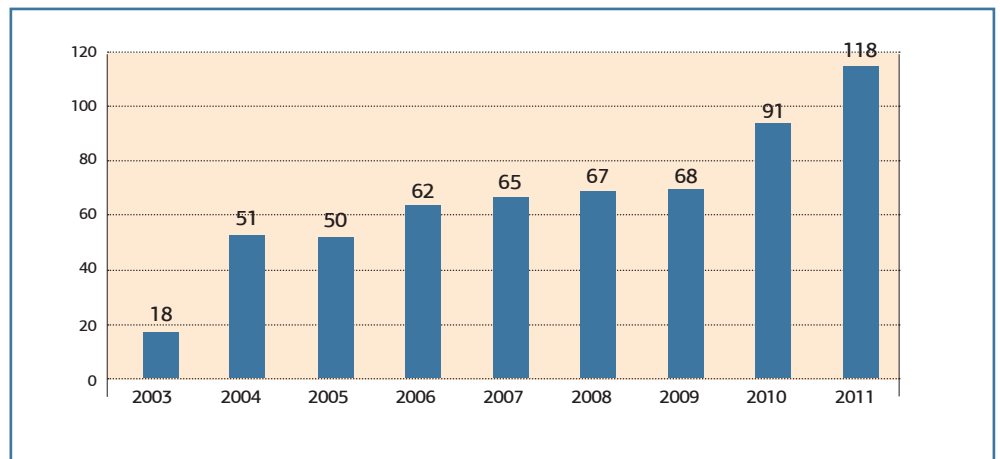
Graph 5: Issuers of securities listed on the individual markets of the Cyprus Stock Exchange in December 2011



3.2.3 Cyprus Investment Firms (CIFs)

By the end of 2011, the CySEC supervised a total of 118 CIFs, a number remarkably higher than the 68 CIFs which were supervised in 2010. This development reflects the increased interest to obtain a Cyprus Investment Firm operating licence (Graph 6).

Graph 6: Number of Cyprus Investment Firms (CIFs)

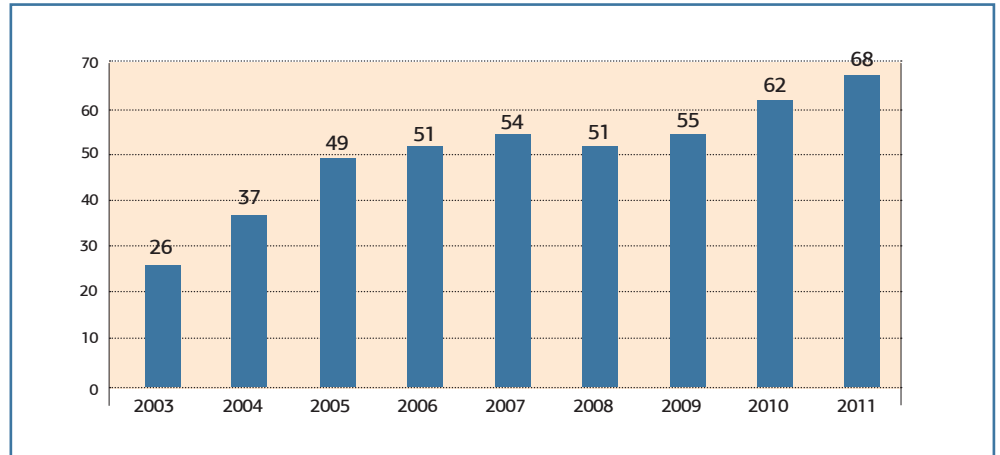


In the course of 2011, the CySEC received 35 new applications for new CIF operating licences compared to 31 applications received in 2010. The CySEC also received 23 applications from the existing CIFs for extension of their operating licences, 42 applications for the free provision of services, 6 applications for the termination of operations and a significant number of applications for changes to CIFs particulars. The flow of applications continues at a steady pace during the early months of 2012.

3.2.4 Undertakings for the Collective Investment in Transferable Securities (UCITS)

The number of foreign harmonised UCITS increased in 2011 compared to 2010 from 41 to 43 single schemes and from 21 to 25 umbrella schemes. Single schemes do not have sub-funds. Umbrella schemes have one or more sub-funds. Graph 7 shows the total number of foreign harmonised UCITS (single schemes kai umbrella schemes).

Graph 7: Total Foreign Harmonised UCITS

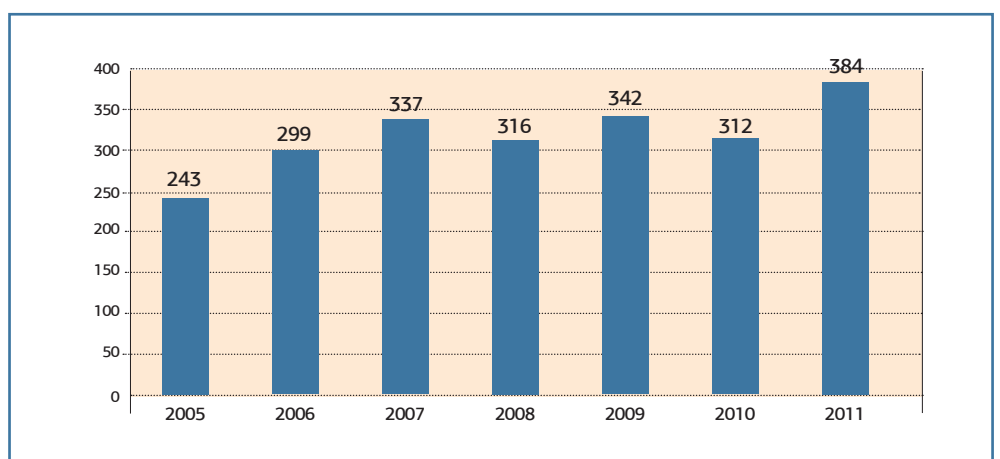


During the year under review, 8 foreign harmonised UCITS (4 umbrella schemes και 4 single schemes) registered with the CySEC in order for their units to be marketed in the Republic, whereas the marketing of the units of 2 foreign harmonised UCITS (single schemes) in the Republic was terminated due to their merger with other UCITS.

In 2011, the marketing licence of 5 foreign non-harmonised UCITS which were in operation in 2009 was revoked upon request by the UCITS.

In 2011, the total number of sub-funds under the umbrella schemes increased to 384 as regards harmonised UCITS (312 in 2010) and decreased to 0 (18 in 2010) as regards non-harmonised UCITS (Graph 8).

Graph 8: Foreign Harmonised UCITS Sub-funds



3.2.5 Credit Rating Agencies (CRAs)

In 2011, the CySEC did not receive any applications for the registration of a Credit Rating Agency (CRA). In 2010, the CySEC had received the first two applications for the CRA registration in accordance with the relevant European Regulation.

3.3 SINGLE BODY FOR OUT-OF-COURT SETTLEMENT OF FINANCIAL DISPUTES (FINANCIAL OMBUDSMAN)

In March 2011, the appointment of an eight-member Board of the Single Body for Out-of-Court Settlement of Financial Disputes took place. The Body was established in 2010 in order to respond to consumer complaints against financial service providers and its aim is to settle any disputes which consumers may have. The enterprises falling within the scope of the Establishment and Operation of a Single Body for Out-of-Court Settlement of Financial Disputes are generally banking institutions, insurance companies and investment firms. This body will essentially constitute the Financial Ombudsman of Cyprus.

The Governor of the Central Bank of Cyprus, the Chairman of the Cyprus Securities and Exchange Commission and the Superintendent of Insurance are represented in the Body's Board, as supervisory Authorities. Representatives of the Ministry of Trade, Industry and Tourism, of the banks, of insurance companies, of investment firms and of consumers also participate in the said Board.

During the year, the significant issues addressed by the members of the Body's Board comprised the financing of the Body in order to operate as a stand-alone organisation with economic independence, the preparation of the first Budget for the year 2012 focusing on austerity and saving of funds as well as the review of the law in order to become operational and give to the Financial Ombudsman the necessary time margin to deal with the complaints which will be submitted. A representative of the CySEC participated in all meetings of the Body as a member of the Body's Board and contributed greatly in terms of knowledge and experience to solving the above issues.

4. Developments in the Cyprus Securities and Exchange Commission

4.1 INCREASED EUROPEAN AND INTERNATIONAL OBLIGATIONS

The reforms to the European System of Financial Supervisors (ESFS) create many great responsibilities to the CySEC and affect greatly the Cyprus securities market. The CySEC participates in various expert groups of ESMA, which have acquired an upgraded role in the new European System of Financial Supervisors.

Additionally, there are programmes of a technical nature which need to be implemented soon or have already been implemented at EU level and the CySEC is participating in their implementation in cooperation with the corresponding supervisory Authorities of the other Member States. Examples of such programmes are the Transaction Reporting Exchange Mechanism (TREM), the Instrument Reference Database System (IRDS) and the UCITS Network. The Transaction Reporting Exchange Mechanism is a mechanism for the exchange of information amongst Supervisory Authorities with regard to transactions in transferable securities carried out by Investment Firms. The said mechanism, in which Cyprus participates through the CySEC, has been in operation on a daily basis since 2007. The Instrument Reference Database System constitutes a collective database for the whole of Europe aiming to assist in the categorisation and distribution of information on transactions to the competent Supervisory Authorities. The UCITS network, although it has a similar philosophy and operation with TREM, is however a specialised system for the collection and distribution of information on transactions in UCITS units. It is currently under review in order for the final technical specifications to be determined in cooperation with all Supervisory Authorities of the Member States.

Another project currently under way is the pan-European electronic network of Officially Appointed Mechanisms (OAM) for the central storage of important regulated information

of companies whose securities are listed on European stock exchanges in accordance with Directive 2004/109/EC on the harmonisation of transparency requirements in relation to the information about issuers whose securities are admitted to trading on a regulated market. The CySEC will be responsible to monitor the Cyprus mechanism and ensure that its technical operation complies with the EU Directives.

Moreover, the CySEC has begun since 2011 to also actively participate in the examination and reshaping of the legislative proposals of the European Commission with regard to the operation of the securities market, since Officers of the CySEC participate in the negotiations and meetings of the various working groups for the issues under study which pertain to the securities market sector. In view of the Cyprus Presidency of the Council of the European Union, the CySEC has to play a more active role since it will be responsible for the presidency and of the carrying out of negotiations for the said legislative proposals.

Within the context of the State's policy to render Cyprus a regional financial centre, a need is created to upgrade Cyprus' participation through the CySEC in the International Organization of Securities Commissions (IOSCO). It should be noted that despite the fact that up to this day the CySEC has participated in a limited number of meetings and working groups of IOSCO, its involvement in the supervisory Authorities of third countries (outside the European Union) in the past years has been constantly increasing as a result of the international activities of CIFs and therefore the upgrade of its participation is deemed highly necessary.

4.2 NEW LEGISLATIONS

The new European Directives which will have to be transposed into Cyprus Law include the Directive on Alternative Investment Fund Managers, the new Capital Requirements Directive and the Capital Requirements Directive (CRD III).

Also, in addition to the transposition of the aforementioned into Cyprus legislation, there is a large number of draft Laws at national level that are not necessarily derived from European Directives, which also require the attention of the CySEC. For example, the draft Law on the regulation of companies offering administration and trustee services for private entities, the draft Law on Undertakings for Collective Investment in so far as it concerns the Private Collective Investment Schemes and the draft Law on Illegal Financial Transactions (e.g. Pyramid Scheme or Ponzi Schemes).

At its own initiative, the new Board of the CySEC has drawn a draft Law for the amendment of the Companies Law so that banks can draw the necessary funds through the issue of shares at a discount. It is an imperative need to also institutionalise the provision of credit for the carrying out of stock exchange transactions in the form of margin accounts. Margin accounts give investors the opportunity to purchase shares of greater value than their available cash balance by blocking in the form of collateral, shares or cash which form the «security portfolio». The institutionalisation of margin accounts will contribute to the repression of any phenomena of misuse of investor capitals from such credits by Investment Firms and for this reason the CySEC has recommended the adoption of a relevant law/regulation.

4.3 NEW COMPETENCES AND RESPONSIBILITIES

Apart from the drafting and expression of views on proposed legislations, there is a multitude of new competences arising from the said and/or other recent legislations which the CySEC is required to exercise. These competences intensify the need of the CySEC to acquire new expertise in order to be able to cope with the new responsibilities and obligations assigned thereto.

The new competences and responsibilities of the CySEC include the supervision (in cooperation with ESMA) of CRAs which are based in Cyprus, the granting of operating licences and the supervision of companies that are involved in the provision of services for the execution of transactions in foreign exchange with spot delivery (without physical delivery), the supervision of compliance with the legislation on the Prevention and Combating of Money Laundering Acts insofar as it relates to trustees, the safeguarding of financial stability and crisis management (in cooperation with other supervisory Authorities within the framework of and participation in the European Systemic Risk Board), as well as the addressing of the increased need for financial education of the public.

Furthermore, the CySEC monitors and participates in the implementation process of the Target2Securities platform, which will provide a single technical platform for the settlement of all transactions in shares and bonds that will be negotiated in the European Union and settled in Central Bank money. The development of this platform was launched in 2006 and is expected to be completed in 2014. Its main objective is the harmonisation of the individual European systems of securities settlement and their integration in a single unified system. The common operating rules, standards and pricing provided by the system for all European transactions will contribute to reducing the complexity of the existing structures of the securities markets, thereby reducing the costs arising from the lack of harmonisation at a legal, technical and financial level.

4.4 NEW STRATEGIC PLAN

One of the priorities of the new CySEC Board is to set out a new vision and draw a five-year strategic plan in order to set out the short-term as well as the long-term objectives of the Commission. For the preparation of the strategic plan, the recommendations and views of all stakeholders have been taken into account. In addition to the traditional role that it has to play in ensuring the effective supervision and protection of investors, the CySEC will emphasize on encouraging healthy competition, developing initiatives and innovation in the field of securities market in order to contribute to the upgrading of Cyprus' reputation and credibility as an international financial centre.

The new Strategic Plan will be presented in 2012, since for the year 2011 the Strategic Plan in force was the one elaborated in 2007, during the term of the previous CySEC Board.

4.5 ATTRACTION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENTS IN TRANSFERABLE SECURITIES

With the harmonisation of the Cypriot institutional framework with the European Acquis in the sector of Undertaking for Collective Investments in Transferable Securities (UCITS IV) and Alternative Investment Fund Managers (AIFMD), new prospects are being created for the attraction of significant foreign investments in Cyprus. Among the efforts to modernise

the institutional framework for UCITS is the drafting of a new draft Law, according to which the International Collective Investment Schemes, which are under the supervision of the Central Bank, will come under the supervision of the CySEC. The CySEC is working intensively to adopt the above draft Laws the soonest possible in order to promote the development of the mutual funds market in the Republic of Cyprus.

The UCITS sector has grown significantly in the past years and now plays a central role in European financial markets. It is considered to be one of the emerging sectors in the financial services sector in Cyprus and the CySEC makes significant efforts to promote it. The participation of the CySEC in various conferences, both in Cyprus and abroad, in which the investment opportunities, the advantages and the new developments in the field of the Cypriot securities market, especially in the UCITS sector, are presented and the preparation of informative material on UCITS, fall within the framework of these efforts.

In conjunction with the recent changes in the tax regime governing the investments in UCITS, it is expected that there will be keen interest in the establishment of domestic UCITS as well as the establishment of their Management Companies.

The Undertakings for Collective Investments (UCI) are considered to be one of the most effective forms of investment since they are collective investment schemes based on the idea that many investors who have the same investment philosophy and common objectives, pool their money instead of investing them separately, thus creating a large powerful capital which essentially consists of units of equal value. A special category of UCI is the open-ended Undertakings for Collective Investment in Transferable Securities (UCITS), which are under the supervision of the CySEC.

These tax reforms are expected to contribute greatly to the reinforcement of the sector as the UCI will become more efficient and therefore competitive, both at European and international level, resulting in the creation of more favourable conditions for attracting foreign capital to the Republic of Cyprus. It should be noted that the efforts to remove any disincentives that existed as regards the investment capital sector to review the existing tax regime date back to 1999 and are included in the efforts to attract foreign capital in order for Cyprus to become a robust international regional financial centre. It is expected that the reinforcement of the operation of the UCI institution, which is expected to have a more rapid growth, proportional to that noted abroad, will contribute towards meeting this target.

4.6 SUPREME COURT DECISION IN APPEAL NO. 1589/2009

On 12 August 2011, in Appeal no. 1589/2009, *Aspis Holdings Public Company Ltd v. Cyprus Securities and Exchange Commission*, the Supreme Court decided inter alia, that the appointment of the members of the CySEC Board at the time of making the decision in question for the company, was contrary to the provisions of the CySEC Law on the need for CySEC members to meet relevant qualifications. This decision resulted in deposing the entire Board and this affected all existing Directives of the Commission issued by the CySEC and published in the Official Gazette of the Republic in view of the fact that the issue and publication of the Directives emanated from decisions of an incompetent body. This Court decision formed a highly unfavourable development for the CySEC since it created the need, in view of avoiding legal problems in the future, to re-publish all CySEC Directives.

Furthermore, in view of this decision by the Supreme Court, previous decisions by the deposed Board of the Commission on investigating cases of market abuse imposing administrative sanctions were also revoked. Upon its appointment, the new Board of the CySEC instructed the Department of Market Surveillance and Investigations to review a large number of previous cases. Generally, as a result of the said Supreme Court Decision, a great amount of work has been created for both the personnel and the new Board of the CySEC, which due to the extended period that the CySEC remained without an executive Chairman, Vice-Chairman and Board, their schedule was already heavy.

4.7 APPOINTMENT OF A NEW BOARD

The CySEC has remained virtually without an appointed Board from July to September 2011, a fact which caused major problems in the operation of the CySEC and serious delays in decision-making. This resulted in the accumulation of a large amount of work and important issues, such as the approval and licensing of new Investment Firms, not to being addressed to. The appointment of the executive Chairwoman and Vice-Chairman and of the new members of the Board in September 2011 gave the solution to an extremely difficult situation for the CySEC and allowed it to return back to smooth operation and uninterrupted continuation of its work.

4.8 NEED TO INCREASE THE COMMISSION'S PERSONNEL

After repeated consultations of the CySEC with both the Ministry of Finance and the House of Representatives, the need to increase the Commission's personnel was recognised and 12 new positions were approved in 2011. However, as a result, on the one hand, of the reorganisation of the European system of financial supervision due to the need for more supervision both at European and national level, and, on the other hand, of the increase in the number and size/complexity of the institutions supervised by the CySEC, it is more important to reinforce it with scientific personnel in order to be in a position to effectively respond to its growing and complex obligations. By the end of 2011, the newly appointed executive members of the CySEC, the Chairwoman and the Vice-Chairman, proceeded with some key changes in the internal organisation of the CySEC in order to improve its efficiency. By continuing this reorganisation in 2012, the CySEC will be able to re-evaluate its needs in human resources.

4.9 IMPROVEMENT OF THE COMMISSION'S OPERATION

The CySEC has proceeded with some important simplifications and improvements in CIF licensing procedures and the approval of prospectuses in view of rendering it more flexible and competitive in relation to the corresponding procedures of other European countries. In addition, it makes an effort to minimise as much as possible the time required for the examination and assessment of an application for the granting of a CIF licence and, despite the fact that the law provides for a six-month deadline, the CySEC has limited this period to about three months provided the application is accompanied by all required documents. At the same time, effective supervision is ensured by either performing continuous checks of the information submitted compulsorily and regularly to the Commission (off-site checks) or by performing on-site checks at the offices of CIFs.

4.10 INTERNAL ORGANISATION AND UPGRADING OF INFRASTRUCTURE

4.10.1 Creation of a Risk-Based Supervision Framework for Investment Firms

In 2011, the CySEC, within the framework of the strategic pursuit for improvement of the internal organisation and upgrading of infrastructure, proceeded with a deeper and more thorough analysis of the requirements for the development of a risk-based system for the supervision of the investment firms, the implementation methodology and application of the project, as well as its subsequent management.

The risk-based supervision framework will consist of procedures, methodologies and tools used by the CySEC to promptly identify and assess the risks facing each supervised institution. The implementation of this system will be based on international best practices and its aim will be to upgrade, as well as to increase effectiveness and transparency in the supervision of the Investment Firms by the CySEC. Furthermore, the implementation of this system will contribute to the reduction of the workload of the Department for Granting Operating licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies, since the departmental resources will be allocated more efficiently and objectively in the supervision of institutions which pose the higher risks.

The CySEC decided to implement the risk-based supervision framework for investment firms by following the example of a number of other European supervisory Authorities and after taking into account a multitude of factors affecting the effective supervision of Investment Firms. Such factors are the exponential growth of the regional and international financial markets, the ongoing development and implementation of new legislations for Investment Firms, the large and growing number of supervised CIFs as well as the fact that the size of a CIF is not always representative of the risks deriving from its activities at national level.

The preparation and implementation of the system, which requires an enormous amount of work and the use of highly specialized knowledge, is expected to be completed within two years from to the time of assignment.

4.10.2 Creation of a CIFs Database

In the course of 2011, the project to create an Electronic Database has been at the final stage of completion and it will completely automate the process of filing, processing and analysing statistical data regarding the capital adequacy of CIFs. Information will be submitted to this database directly from the CIFs at a regular basis, in accordance always with their legal obligations. The database will store and also process this enormous volume of information in order to prepare reports automatically and quickly on the capital adequacy of CIFs, thus significantly reducing the time allocated by the relevant CySEC Department for monitoring the CIFs' compliance to their capital adequacy obligations.

4.10.3 Document Management System

The Document Management System (DMS) will form the core management of documents and operations of the CySEC and will provide the possibility of easy and safe storage of documents as well as automatic forwarding of documents for quick processing. The implementation of the system was postponed due to the detection of certain technical features which needed further study and clarification. Upon completion of this project and with the introduction of the electronic signature, supervised institutions will be given the possibility to send information by using electronic forms and the CySEC will be able to securely receive and accept documents in electronic form, which will be channelled directly into the Document Management System.

4.11. COMMUNICATION WITH SUPERVISED INSTITUTIONS AND OTHER MARKET PARTICIPANTS

From the first months of their appointment, the new Chairman and the new Vice-Chairman of the CySEC communicated with all interested securities market participants in Cyprus and openly invited them to present their views as regards the present situation of the market's operation and their proposals for the improvement of any challenges. Market participants proceeded with the submission of their recommendations both individually and collectively, which were extensively examined by the Commission and the ones which have been considered to be useful, were included in the Commission's strategic plan for the next five years.

It is noted that the establishment of open channels of communication with supervised institutions as well as market participants forms a standard policy of the new Board, which considers that the contribution of market participants in market improvement and development - in cooperation with the supervisory Authority - is enormous.



SECTION C

1. Department of Strategy, Economic Analysis and International Relations
2. Department for Granting Licences, Listing and Continuous Obligations of Issuers
3. Department for Granting Operating licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies
4. Department for Granting Operating licences and Supervision of UCITS and UCITS Management Companies
5. Department for Market Surveillance and Investigations
6. Legal Department
7. Administration and Personnel Department
8. IT and Operations Department

Department of Strategy, Economic Analysis and International Relations

The most significant responsibilities assigned to the Department of Strategy, Economic Analysis and International Relations comprise the effective operation of a CySEC planning system, the submission of recommendations to the Chairman, Vice-Chairman and Board on issues of Strategy and Policy, the improvement of the internal and external communication system, the submission of proposals for the implementation of a programme for the education and better information of the public on financial matters, the strengthening of international relations, the coordination and strengthening of the relations and communication with the other competent supervisory Authorities of the Cyprus financial sector and other stakeholders, and the representation of the CySEC at technical level in the High level Committee of Supervisors of the Financial Sector of the Republic of Cyprus and in the National Committee for Financial Stability.

In addition, the better internal organisation and coordination of the CySEC operations, the more intense cooperation amongst national supervisory Authorities of EU Member States, the upgrading of investor's education system, the representation of the CySEC in various committees abroad, such as the ESMA Review Panel, the ESRB Advisory Technical Committee and the Advisory Committee for the implementation of sanctions from resolutions of the UN Security Council and restrictive measures from EU Regulations, are some of the main priorities of the Department.

The Department of Strategy, Economic Analysis and International Relations, has set, inter alia, the following objectives:

- To ensure convergence in the implementation of European Directives and close cooperation with other supervisory Authorities in Europe, through the participation of Department officers in the relevant committees and working groups of ESMA.
- To upgrade investors' education system through the submission of proposals for the formulation and implementation of targeted educational programmes for the public regarding the securities market, financial instruments and their rights in relation to investments held and the investment services offered to them.
- To contribute to the upgrading of the reputation and credibility of Cyprus as a successful regional financial centre through close cooperation with supervisory Authorities and other market stakeholders.
- To contribute to the improvement of CySEC's internal organisation and the preparation and implementation of the appropriate communication policy.

In 2011, the Department's operations have been affected during the period which elapsed between the dismissal of the previous CySEC Board members and the appointment of the new Board, due to the fact that the Department works closely with the executive Chairpersons and needs direct guidance by them as well as by the Board for many of its duties and responsibilities.

1. ISSUES OF INTERNAL PLANNING

Within the framework of its duties, the Department has submitted a recommendatory note for addressing the issues of the upgrading of internal organisation, improving staff assessment and promoting incentives for the better operation of CySEC.

2. SUPPORT TO THE CHAIRPERSONS

Once the new CySEC Board had been appointed, the Department has submitted recommendations to the Chairwoman and Vice-Chairman for the creation of a strategic plan for the Commission which will cover the 2011-2016 period. The recommendations concern issues of organisation, the upgrading and improvement of the regulatory and supervisory framework, investor education and protection and generally how the CySEC can better meet its objectives.

The support by the Chairwoman and the Vice-Chairman for the better coordination of the CySEC operations continued throughout the year under review. According to their instructions, the Officers of the Department conducted various studies in order to inform the Chairpersons on current issues and internal needs. The communication of the Chairpersons with their counterparties in other Authorities or stakeholders in Cyprus and abroad was also promoted in accordance with the existing Policy for Communication of the Commission.

3. ISSUES OF INTERNAL AND EXTERNAL COMMUNICATION

In 2011, the Department identified the communication needs of the CySEC, determined the specifications and completed a process of selection of external communication advisor. In collaboration with the external communication advisor, the Department has prepared a comprehensive proposal for the creation of a new corporate identity as well as a proposal concerning the upgrading of the Commission's website.

Furthermore, in cooperation with the other CySEC Departments, the Department undertook the preparation and issue of the Annual Report for 2011. In 2011, the Annual Report of the Commission was also issued for the first time solely in the form of a CD in order to reduce the use of paper within the context of implementation of a more environmental policy by the Commission, as well as to reduce the cost of sending the Annual Report in Cyprus and abroad.

Also, the Department supervised the creation of various publications, including articles, press releases and interviews, in accordance with its duties in the field of external communication.

Within the context of internal communication, the Department organised informative presentations, such as the presentation on the conversion of the 3L3 Committees Level 3 (3L3 Committees - CESR, CEBS and CEIOPS) into the new European Supervisory Authorities (ESMA, EBA and EIOPA) and how the European System of Financial Supervisors is affected, presentations on issues of common interest for the CySEC personnel, the presentation on the Financial Ombudsman of Cyprus and the presentation on issues concerning the Cyprus Presidency of the EU Council. Additional presentations which were made to inform the personnel and especially the newly recruited personnel, concerned issues such as International Organisation of Securities Commission, the European Securities and Markets Authority, the European Systemic Risk Board and the EU Institutions and the process of drafting European legislation.

The Department monitors the national and international media on an ongoing basis and provides daily internal information on current issues or new developments at national, European and international level.

4. ORGANISATION OF SEMINARS, CONFERENCES AND OTHER EVENTS

In the course of 2011, the Department undertook the organisation of three training seminars to employees at Cyprus Investment Firms on capital adequacy of Investment Firms as well as the organisation of meetings of two ESMA committees, i.e. the meeting of the Corporate Reporting Standing Committee (CRSC) and the meeting of the European Enforcers Co-ordination Sessions (EECS).

At the end of 2011, the Department proposed and arranged, in cooperation with the International Organisation of Securities Commissions (IOSCO), the conducting of a training seminar in Cyprus on the legislative and supervisory challenges created by new financial products. The Department was also responsible to organise the internal events of the Commission.

5. ISSUES OF FINANCIAL EDUCATION OF INVESTORS

The Department is responsible for the submission of recommendations regarding the education programmes of the public in financial matters, as well as for the application and monitoring of the implementation of educational programmes for the public.

In 2011, the CySEC continued its actions regarding the design and development of a programme for the increase of awareness and education of investors in financial matters focusing on those related to securities market. In collaboration with the external communication advisors, a recommendatory note has been submitted for the design and promotion of an informative booklet which would include all issued articles of the CySEC and other relevant information for wide public distribution.

The Department has also discussed and proposed ways of optimising and viewing the results of the national market research conducted in 2010 in view of establishing the public's level of knowledge on issues relating to securities markets and investments in transferable securities. Based on the research findings, suggestions were made for the design of appropriate and better targeted educational programmes for those groups and subgroups of the population that are more vulnerable to investment risks and do not have the necessary knowledge and experience background.

In the course of 2011, the Department published a number of informative articles on various issues related to securities market and investments in transferable securities. Lastly, the Department publishes the warnings for investors issued by the CySEC on IOSCO's Investor Alert Portal.

6. INTERNATIONAL RELATIONS

The Department has been delegated the responsibility of communication with the competent supervisory Authorities and organisations abroad as well as the negotiation and entering into Memoranda of Understanding with supervisory Authorities abroad. In the course of 2010, regular communications with the Securities Regulatory Commission of China had commenced in view of entering into a Memorandum of Understanding in order to facilitate the cooperation between the two Authorities and enhance business and investment ties between the two countries. The said Memorandum of Understanding between the CySEC and the China Securities Regulatory Commission was signed on 17 May 2012 in Beijing.

Furthermore, the Department is responsible for coordinating the self-assessment of the CySEC and the legal framework in terms of the implementation of the eight new principles of IOSCO. The implementation of IOSCO's principles is vital in terms of achieving a uniform supervision amongst countries and meeting the increasing demands of modern securities markets.

Following a comprehensive proposal regarding the better organisation and coordination of the issues concerning the international relations of the CySEC, the responsibility for handling the communication in the context of international relations came to a great extent under the Department of Strategy, Economic Analysis and International Relations. In this way, the Department achieves greater cohesion and organisation, a better international relations archive is maintained and a clearer picture of the cooperation between the Commission and its counterparties as well as with the various securities market institutions and other relevant bodies abroad. Consequently, the growing number of requests for investigation and collection of information mostly from competent Authorities abroad by virtue of bilateral or multilateral Memoranda of Understanding are directly handled by the Department and requests are referred to the relevant Departments for execution.

The Department keeps up to date with the works of ESMA insofar that it relates to the work of the Board of Supervisors and disseminates announcements and report by ESMA to the rest of the CySEC. Furthermore, the Department keeps up to date with the works of IOSCO and is responsible for publishing important IOSCO announcements and warnings for investors. The Department is also responsible for keeping up to date with the works of the European Systemic Risk Board (ESRB).

In 2011, the Department collected and sent information and completed questionnaires relating to the Cyprus Securities and Exchange Commission, its work and its operations in various sectors, following requests by ESMA, IOSCO, the International Forum for Investor Education (IFIE) and other European and international organisations with which the Commission cooperates closely in view of exchanging data and experiences.

Due to the increased European and international obligations called to handle, a new Officer was assigned to the Department.

7. REPRESENTATION OF THE COMMISSION

The internal coordination necessary for the participation of the CySEC in ESMA and in the aforementioned ESRB is carried out by the Senior Officer of the Department. As regards the ESRB, the Senior Officer of the Department has participated in a meeting of the Advisory Technical Committee of the ESRB, which aimed to provide advice and assistance to the ESRB. In addition, in the course of 2011, the Commission was represented in two meetings of the Board of Supervisors of the ESMA and in two meetings of the General Board of the ESRB.

The Senior Officer of the Department has also been assigned the task of coordination with the Ministry of Finance and the Planning Bureau on European Union issues insofar as relating to the responsibilities of the CySEC. In light of the fact that in the second half of 2012, the Cyprus Republic will assume the presidency of the European Union, this role has become particularly important. The Department informs the Chairperson on the reviews or

issues of new legislative regulations and plays a significant coordinating role for the smooth operation of the expert groups for the examination of the new legislative proposals of the European Union.

The Senior Officer of the Department participates, alongside the executive Chairpersons, in the High Level Committee of Supervisory Authorities of the Financial Sector of the Republic as well as in the National Committee for Financial Stability. In addition, she is a member of the Board of the Single Body for Out-of-Court Settlement of Financial Disputes as representative of the CySEC Chairwoman and she also represents the Commission in the Advisory Committee for the implementation of sanctions from resolutions of the UN Security Council and restrictive measures from EU Regulations.

8. TRAINING OF OFFICERS AND PARTICIPATION IN SEMINARS

The Senior Officer participated in a training programme of IOSCO, which took place in Madrid, Spain on «Investor Protection: The Latest Developments in Research, Investor Education, and the New IOSCO principles». Furthermore, within the context of the Programme on European Negotiations, the Senior Officer of the Department attended a seminar organised by the European Academy of Public Administration on «Presidency Challenges: The practicalities of chairing Council Working Groups».

Participation of an Officer in a training seminar organised by the Cyprus Stock Exchange in order to become informed of the new developments on depository receipts and the corporate governance code. An Officer of the Department has also participated in a seminar on the improvement and modernisation of the public sector.

9. PARTICIPATION IN COMMITTEES AND GROUPS OF ESMA

The Senior Officer of the Department represents the CySEC in the ESMA Review Panel meetings which is responsible for contributing to the enhancement of the regulatory convergence of legislation and practices followed by Member States through mapping and critical reviews as well as through exerting peer pressure amongst Members. In the course of 2011, the ESMA Review Panel held five meetings.

Furthermore, during 2011, the Senior Officer of the Department was called to participate in four meetings of the ESMA's Board of Supervisors, at which the CySEC Chairperson at the time was unable to attend due to prior commitments.

An Officer of the Department represents the CySEC in the ESMA Consumer Network which aims at better informing EU consumers in the context of the obligations of ESMA for the protection of investors. An Officer of the Department also participated from a distance in the ESMA Committee for Economic and Market Analysis (CEMA).

Department for Granting Licences, Listing and Continuous Obligations of Issuers

The Department for Granting Licences, Listing and Continuous Obligations of Issuers, within the framework of the wider Strategic Plan adopted by the CySEC, has set, inter alia, the following objectives:

- To promote the reform and modernisation of the legal, regulatory and supervisory framework that governs Issuers through its contribution to the issue of CySEC Directives, to the identification of points of law that need to be amended and the review of proposed amendments;
- To ensure convergence in the implementation of European Directives and close cooperation with other European Supervisory Authorities on matters regarding Issuers through the regular participation of the Department officers in the relevant committees and working groups of ESMA.

1. CONSIDERATION OF APPLICATIONS FOR APPROVAL OF PROSPECTUSES FOR PUBLIC OFFER OR LISTING OF SECURITIES ON A REGULATED MARKET – MONITORING OF THE IMPLEMENTATION OF THE PUBLIC OFFER AND PROSPECTUS LAW

The CySEC is the competent Supervisory Authority for the approval of Prospectuses for public offers or listing of securities on a regulated market in all cases where Cyprus is the Issuer's Member State of origin. This power derives from the Public Offer and Prospectus Law of 2005 – Law.114 (I)/2005, which is fully harmonised with European Directive 2003/71/EEC on Prospectuses. Pursuant to this Law, the CySEC approves the Prospectus provided its content complies with the provisions of the Law and the Regulatory Acts issued by virtue of that Law.

As regards the admission of securities to the regulated markets of the Cyprus Stock Exchange, under the current framework, the Board of the Cyprus Stock Exchange is the body responsible for examining whether the issuer of securities fulfils the basic requirements for admission to the Cyprus Stock Exchange. One such admission requirement is the publication of a Prospectus in cases where Cyprus is the Issuer's home Member State, approved by the CySEC.

1.1 Applications for the approval of Prospectuses for public offer or listing of transferable securities on a regulated market

The examination of applications for the approval of Prospectuses pursuant to the legislative framework in force includes ensuring that a Prospectus is complete in terms of containing all necessary information required under the Public Offer and Prospectus Law and Regulation 809/2004 of the European Commission. This information should be consistent and comprehensible.

In 2011, the CySEC received 13 applications (13 in 2010) for approval of Prospectuses for public offer and/or admission of transferable securities on a regulated market pursuant to the Public Offer and Prospectus Law. The CySEC has examined these applications as well as 4 pending applications which were submitted in 2010. The CySEC approved the Prospectuses for 10 of them (11 approvals in 2010). The examination of 6 applications was not completed because the said applications were withdrawn by the issuers due to the conditions which prevailed on international markets affecting the raise of capital. In addition, the examination of 1 application submitted in 2011, was completed in 2012.

In 2011, the CySEC also received 6 applications (6 in 2010) for the approval of a Prospectus Supplement pursuant to the aforesaid Law. The CySEC examined these applications and issued the relevant approvals for 5 of them (4 in 2010). The examination of 1 application submitted in 2011, was completed in 2012.

Three of the above approved Prospectuses and their corresponding Supplement Prospectuses as well as one Supplement Prospectus which concerned a Prospectus approved in 2010 (5 Prospectuses and their corresponding Supplement Prospectuses in 2010) were sent, at Issuer's request, to the competent supervisory Authorities of three host Member States of the European Union where a public offer of such securities and/or admission on a regulated market was also carried out.

1.2 Monitoring of the implementation of the Public Offer and Prospectus Law

Officers of the Department monitor on a continuous basis the announcements of issuers regarding the issue/offer of transferable securities or the admission of transferable securities on a regulated market in order to establish their compliance with the Public Offer and Prospectus Law as to their obligation to issue a Prospectus or a Supplementary Prospectus or whether they fall within the exemptions provided by the Law.

Moreover, officers of the Department monitor on a continuous basis the notifications of Prospectuses approved by the competent Supervisory Authorities of other EU Member States, which mainly concern public offers made in the Republic of Cyprus regarding transferable securities issued by issuers whose home Member State is other than Cyprus. All the above notifications are listed on the website of the CySEC.

In cases where the examination of applications for approval of Prospectuses or of the relevant announcements, revealed a potential violation of the stock exchange and securities market legislation, these were referred to the Department of Market Surveillance and Investigations for further investigation.

1.3 Documents equivalent to a Prospectus

In 2011, in 1 case (0 in 2010), the CySEC examined, at Issuer's request, the information contained in a Public Takeover Bid Document in respect to the securities offered as consideration in order to determine whether such information was regarded as equivalent to a Prospectus within the framework of the relevant exemptions provided by the Law. In this case, the CySEC considered the information equivalent to the Prospectus and granted the relevant exemption under the Law.

1.4 Transfer of competence for the approval of a Prospectus

In 2011, the CySEC received applications from 5 issuers (4 in 2010) whose home Member State according to the Law is the Republic of Cyprus, requesting the transfer of competence for the approval of their Prospectus to the Supervisory Authority of another EU Member State. The CySEC examined the applications and decided, pursuant to Article 26(8) of the Public Offer and Prospectus Law, to transfer the competence for the approval of these specific 5 Prospectuses (3 in 2010) to the Supervisory Authority of another EU Member State, according to the relevant application, on the condition that each competent Authority concerned had given its consent for the transfer.

1.5 Recognition as quasi professional investor

In 2011, the CySEC received 4 applications (0 in 2010) from a corresponding number of

investors for their recognition as quasi professional investors under the Public Offer and Prospectus Law of 2005 and their entry into the “Register of Small- and Medium-Sized Enterprises characterised as quasi professional investors”. The CySEC examined the said application and issued the relevant approval for applications.

The “Register of Small- and Medium-Sized Enterprises characterised as quasi professional investors” is available on the Commission’s website.

2. PUBLIC TAKEOVER BIDS FOR THE ACQUISITION OF COMPANIES THE SECURITIES OF WHICH ARE LISTED ON REGULATED MARKETS

According to the Law that regulates Public Takeover Bids for the Acquisition of Securities of Companies and Related Matters (Public Takeover Bids Law of 2007), the CySEC is the competent authority for the supervision of Public Takeover Bids in cases where the target company’s registered office is in the Republic and its securities are listed on a regulated market in the Republic for trading. Moreover, in case the Public Takeover Bid refers to a company, the securities of which are not listed for trading on a regulated market in the EU Member State where the company has its registered office, the CySEC is also the competent authority for the supervision of the Public Takeover Bid, under certain conditions provided for by the Law.

The said Law was made for purposes of harmonisation with European Directive 2004/25/EC on takeover bids and the extent of its implementation arises from the said Directive.

2.1 Public Takeover Bid Documents

The aim of the examination of the Public Takeover Bid Documents is to monitor compliance with the general principles governing Public Takeover Bids and the conditions provided for in the Public Takeover Bids Law of 2007, as well as to ensure the completeness of information provided under the said Law and the CySEC Directive 41-2007-03 regarding the content of the Public Takeover Bid Document.

In 2011, 5 Public Takeover Bid Documents (7 in the 2010) were submitted to the CySEC following a relevant announcement by the Offerors, for voluntary or mandatory public offers for the acquisition of 100% of the securities of a corresponding number of issuers with securities listed on the Cyprus Stock Exchange.

In 2011, the CySEC examined the said Documents and decided to authorize the publication of 3 of them (6 in 2011). In addition, one Document was considered as approved under Article 19(4)(c) of the Public Takeover Bids Law. The CySEC also prohibited the publication of one of the above Public Takeover Bid Documents since it decided that the requirements of the Public Takeover Bids Law of 2007 were not being met.

In the course of 2011, a Revised Public Takeover Bid Document (0 in 2010) which concerned one of the aforementioned approved Public Takeover Bid Documents was also submitted following a relevant announcement by the Offerror. The CySEC examined the said Revised Public Takeover Bid Document and decided to allow its publication.

2.2 Exemptions from the obligation for a Public Takeover Bid

In 2011, 11 applications (18 in 2010) for exemption from the obligation of making a mandatory Public Takeover Bid were submitted to the CySEC. The CySEC examined the

said applications and issued a relevant decision (approval or rejection) for 8 of them, while 2 applications were eventually withdrawn by the issuers. The examination of 1 application was completed in 2012.

2.3 Applications to exercise the right of Squeeze-out

In 2011, the CySEC received 3 (3 in 2010) applications by the Offerors to exercise the right to acquire the remaining securities of the companies under acquisition, which were not acquired in the process of the Public Takeover Bid to the shareholders of the companies under acquisition. The CySEC examined the said applications and issued an approval for all applications.

2.4 Monitoring of the compliance with the Public Takeover Bids Law of 2007

In 2011, the Department did not proceed to an investigation of any case pertaining to a potential violation of the Public Takeover Bids Law. In 2010, the Department investigated one case involving a potential violation of Article 13 of the said Law since the Offerors did not comply immediately with the obligation for a mandatory Public Offer to the company's shareholders. In this case, the CySEC, bearing in mind that the Offerors eventually complied with the obligation, decided not to impose any administrative fine on the Offerors for violation of Article 13 of the said Law, but rather to draw their attention to the obligations arising from the Law.

3. CONTINUOUS OBLIGATIONS OF COMPANIES THE SECURITIES OF WHICH ARE LISTED ON REGULATED MARKETS

The CySEC is the competent Authority responsible for supervising and ensuring compliance with the provisions of the Transparency Requirements (Transferable Securities Trading on a Regulated Market) Law of 2007 and 2009 which provides for the Transparency Requirements concerning disclosure about the Issuers whose securities have been listed on a regulated market for trading. The said Law was made for purposes of harmonisation with Directive 2004/109/EC of the European Parliament and Council on the harmonisation of the transparency requirements. The said Law concerns issuers whose home Member State is the Republic of Cyprus and whose transferable securities have been listed on a regulated market in Cyprus or in another Member State for trading. The objective of this Law is to establish the requirements in relation to the disclosure of periodic and continuous information on issuers whose securities have been listed on a regulated market to trading.

3.1 Monitoring of the compliance with the provisions of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law of 2007

Within the context of monitoring the compliance of issuers whose securities are listed on a regulated market, with their continuous obligations by virtue of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law, the CySEC examined the following:

- Their compliance with the provisions of the Law as to their obligation to publish:
 - the Annual Financial Report;
 - the Half-yearly Financial Report;
 - the Indicative Result; and
 - the Interim Management Statement.
- The content of these Reports/announcements and, specifically, whether the said financial

information was prepared according to the provisions of the Law.

- Issuers' compliance with their obligation for timely and complete announcement of any kind of material information.

In monitoring the compliance of issuers with their obligation to publish the Indicative Result for the year 2009, the CySEC investigated two cases concerning a potential violation of Article 13(1) of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law for non-publication of the Indicative Result within a period of time specified by Law, of Article 13 (3) of the said Law as regards the content of the Report accompanying the Indicative Result and of Article 37(2)(a) of the same Law as regards the non-submission of the Indicative Result to the CySEC. The examination of the cases began in 2010 and was completed in 2011 and the CySEC decided to impose administrative fines as follows:

- an administrative fine on one issuer for violation of Articles 13(1), 13(3) and 37(2)(a) of the said Law;
- an administrative fine on one issuer for violation of Articles 13(1) and 37(2)(a) of the said Law.

In the context of the same inspection, the CySEC sent letters to a large number of issuers where minor omissions were observed in their Indicative Result for 2009, drawing their attention to the provisions of the Law regarding Indicative Result and its content.

In the course of 2011, the CySEC also began monitoring the issuers' compliance with their obligation to publish their Indicative Result for the year 2010. In the context of the said inspection, the Commission decided to investigate two cases which concerned a potential violation of Article 13(1) of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law for non-publication of the Indicative Result within the time period specified by the Law, of Article 13(3) of the same Law as regards the content of the Report accompanying the Indicative Result and of Article 37(2)(a) of the same Law as regards the non-submission of the Indicative Result to the CySEC. The examination of these cases was completed in January 2012 and the CySEC decided to impose administrative fines as follows:

- an administrative fine on one issuer for violation of Articles 13(1) and 37(2)(a) of the said Law;
- an administrative fine on one issuer for violation of Article 13(3) of the said Law.

In the context of the same inspection, the CySEC also sent letters to forty issuers with minor omissions as to the publication of their Indicative Result for 2010 or minor omissions as to their content, drawing their attention to the provisions of the Law regarding Indicative Result, their publication and content.

In the context of monitoring issuers' compliance with their obligation to publish their Annual Financial Report for 2009, the CySEC decided in 2011 to investigate three cases which concerned a potential violation of Article 37(2)(a) of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law for non-submission of the Indicative Result to the CySEC. The examination of the cases was completed in January 2012 and the CySEC decided to impose administrative fines in two out of the three cases.

In the context of the above inspection, the CySEC also sent letters to a large number of issuers which presented minor omissions in the publication of their Annual Financial Report for 2009, drawing their attention to the provisions of the legislation on the Annual Financial Report and its publication.

In 2011, the CySEC also began monitoring issuers' compliance with their obligation to publish their Annual Financial Report for 2010. The said inspection is expected to be completed in 2012.

In relation to the process of examining whether the financial disclosures required by the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law were made in accordance with the legal framework, the CySEC examined the Financial Statements for the years 2009, 2010 and/or the half-year ended on 30 June 2011, of a number of companies whose securities are listed in the Cyprus Stock Exchange.

The selection of the Financial Statements which were examined was made on a sample basis and the purpose of the examination was to identify the degree of compliance of the said Financial Statements with the International Financial Reporting Standards. In some cases, a limited/thematic review was carried out in relation to a specific accounting handling. The results of the examinations were sent by the CySEC to the companies involved, so that the relevant explanations could be provided and/or taken into consideration in the preparation of the next audited Financial Statements.

The process of examination of the Financial Statements for the remaining selected issuers continued in 2012.

In addition, the CySEC continued the examination, on a sample basis, of the Financial Statements of issuers that submitted their Prospectuses for approval, within the context of Prospectus' examinations. The aim of this examination in this case was to establish the extent to which the Annual Financial Statements complied with the International Financial Reporting Standards.

In the context of the said inspection, the CySEC examined in 2011 the financial statements which were included in five (2 in 2010) Prospectuses which concerned a Public Offer and the first listing of securities on a regulated market. In some of the said cases, issuers were requested to include additional disclosures in the Financial Statements included in the Prospectus as required by the International Standards of Financial Reporting (ISFR).

3.2 Issues arising from the Securities and Cyprus Stock Exchange Laws and Regulations

In 2011, in 5 cases (6 in 2010) the CySEC approved the decision of the Cyprus Stock Exchange Board for the delisting of the securities of a corresponding number of issuers. In 2 of these cases the delisting was decided because of the issuer's non-compliance with the necessary investor protection guarantees, while in the rest of the cases due to the lack of sufficient dispersion of the share capital of the said issuers as a result of public takeover bids.

3.3 Corporate Governance Code

As regards the Corporate Governance Code issued by the Cyprus Stock Exchange, the CySEC continued to keep an archive with the procedure manuals adopted by the issuers that implement certain or all of the provisions of the Code.

In addition to the above, the CySEC continued to monitor the announcements of issuers as regards the issues that concerned the implementation of the Corporate Governance Code.

The CySEC also participated in the Task Force established on the initiative of the Ministry of Finance, with the aim of discussing and exchanging views regarding the remunerations of the executive members and high ranking officers of the listed companies and introducing new criteria through the Corporate Governance Code, pursuant to the requirements of EU Recommendations.

4. PARTICIPATION IN ESMA COMMITTEES

4.1 ESMA's Standing Committees

The Senior Officer and three Officers of the Department, participate in the following ESMA's standing committees:

■ Corporate Reporting Standing Committee

This Committee handles issues relating to the endorsement and enforcement of the International Financial Reporting Standards in the European Union, issues regarding control of financial statements as well as issues concerning the periodic financial disclosures as derived from the European Directive on the harmonisation of transparency requirements. In the course of 2011, the Senior Officer of the Department participated in four meetings and two teleconference meetings of the said Committee (4 meetings in 2010).

■ Corporate Finance Standing Committee

This Committee handles issues relating to the European Prospectus Directive, issues of corporate governance as well as certain aspects concerning the European Directive on the harmonisation of transparency requirements such as disclosure of share holdings in issuers. In relation to the European Directive on Prospectuses, the Committee discusses issues arising from the implementation of the Directive and issues, where deemed necessary, a document with the common positions of the supervisory members of ESMA ('Frequently asked questions regarding prospectuses: common positions agreed by ESMA members').

In the year 2011, one officer of the Department participated in four meetings of the said Committee (3 meetings in 2010).

■ European Enforcers Coordination Sessions (EECS)

This Committee was established on the basis of Standard 2 of ESMA (Standard no. 2 on financial information - coordination of enforcement activities). Participation in this Committee includes all supervisory Authorities of the EU Member States which are responsible for the supervision of financial information, whether they are ESMA members or not. The important enforcement cases of each supervisory authority on matters of International Financial Reporting Standards are discussed, inter alia, in the meetings of the Committee.

In 2011, the Senior Officer and Officers of the Department participated in 8 meetings (8 in 2010) of EECS and in one teleconference meeting of the said Committee. The meeting of October 2011 of the said Committee was held in Nicosia following a relevant invitation by the CySEC.

4.2 ESMA Contact Groups

An Officer of the Department also monitors the proceedings in the ESMA Contact Group on matters relating to the Public Takeover Bids network in cooperation with the Legal Department. This contact group aims to exchange information and experiences derived from the implementation of the Directive on Public Takeover Bids.

5. CIRCULARS

During the year, a number of announcements and circulars were issued addressed to the issuers of securities listed in the Cyprus Stock Exchange and which, inter alia, covered the following:

- The publication of part of ESMA Archive with regard to decisions concerning the imposition of the implementation of International Standards of Financial Reporting.
- The common positions of the supervisory Authorities in “Frequently asked questions regarding prospectuses: common positions agreed by ESMA members”. 12th Revision, June 2011.
- The publication of ESMA’s Public Statement in July 2011 on the inclusion of disclosures regarding the Public Debt in the financial statements drawn in accordance with the International Standards of Financial Reporting.
- The publication of ESMA’s Public Statement in November 2011 on the handling of the Public Debt in the financial statements drawn in accordance with the International Standards of Financial Reporting.

6. STUDIES

In 2011, the following issues were reviewed and suggestions/comments were submitted:

- ESMA Recommendations for good practices on prospectuses.
- Proposed recommendations of the European Commission for amendments to the European Directive 2004/109/EC on Transparency Requirements (Transparency Directive).
- Draft Regulations on the listing of Depository Receipts on the Cyprus Stock Exchange.

7. PERSONNEL TRAINING

In 2011, Officers of the Department attended seminars on the following issues:

- International Standards of Financial Reporting (update, fundamentals, ISFR 5, IAS 17 and IAS 33).
- ESMA seminar on enforcement of IFRS: Challenges for Supervisors and Exchange of Experiences.
- Seminar on new developments in the Cyprus Stock Exchange as regards Depository Receipts (DRs) and the Corporate Governance Code.

Department for Granting Operating Licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies

The Department for Granting Operating licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies, based on the Strategic Plan of the Commission, has set, inter alia, the following objectives:

- To ensure convergence in the implementation of European Directives and close cooperation with the other Supervisory Authorities of Cyprus and Europe in relation to matters concerning Investment Firms and Regulated Markets, through the regular participation of officers of the Department in the relevant ESMA committees and working groups and contacts with the other Supervisory Authorities of the financial sector of Cyprus.
- To contribute to the sound organisation and operation of dynamic financial institutions that are able to fully meet the obligations emanating from the relevant regulatory framework, through the setting of standards, the training of these institutions and the regular meetings with their associations.

1. TOTAL NUMBER OF SUPERVISED CYPRUS INVESTMENT FIRMS – REGULATED MARKETS – CRAS

By the end of 2011, the CySEC had under its supervision:

- 118 CIFs (91 CIFs in 2010)
- 1 Regulated market (1 in 2010)
- As regards Credit Rating Agencies, the CySEC had examined 2 applications for registration as a CRA and had approved the relevant licences in 2010. The supervision of these agencies was decided to be carried out at European level by ESMA with the assistance of national supervisory Authorities.

2. APPLICATIONS SUBMITTED

Table 4: Applications

Applications submitted to the CySEC for:	2011	2010
Granting a CIF operating licence	35	31
Extension of a CIF operating licence	23	24
Free provision of CIF services	42	24
Establishment of a CIF branch	2	4
Granting a licence for tied agents	5	10
Change of CIF particulars	Significant number	Significant number
Termination of a CIF operating licence	6	2
Registration of a CRA	0	2

2.1 Applications for the granting of a CIF operating licence

In 2011, the CySEC received 35 new applications for the granting of a CIF operating licence (31 new applications in 2010).

In addition to the above applications, another 19 applications for the granting of a CIF operating licence were also examined in 2011 that had been submitted in previous years (20 in 2010). The CySEC granted 35 CIF operating licences (25 in 2010) and rejected 1 application for the granting of a CIF operating licence. Furthermore, 2 companies withdrew their applications for the granting of a CIF operating licence. With regard to the rest of the applications, their examination began in 2010, but the decision process of whether to grant a licence or not has either been concluded or it will be concluded in 2012.

2.2 Applications for the extension of a CIF operating licence

In 2011, the CySEC examined 23 applications for the extension of a CIF operating licence which concerned the provision of additional investment and/or ancillary services and/or financial instruments (24 in 2010).

2.3 Applications/Notifications for the free provision of services and for the establishment of a branch by CIFs and IFs

In 2011, the CySEC examined 42 applications by CIFs for the free provision of services in other EU Member States and/or third countries (24 in 2010) and 2 applications by CIFs for the establishment of a branch in a third country and within the Republic (4 in 2010). Furthermore the CySEC examined a significant number of notifications from IFs of Member States for the free provision of services in the Republic. There weren't any notifications for the establishment of a branch in the Republic by CIFs of Member States (2 in 2010).

2.4 Applications by tied agents of CIFs

In 2011, the CySEC examined 4 applications by tied agents (10 in 2010) for their registration in the public register, eight of which will act on behalf of CIFs within or outside the Republic (10 in 2010).

2.5 Applications for changes in the particulars of CIFs

In 2011, the CySEC examined a significant number of applications for the approval of changes in particulars mainly concerning the organisational chart, the organisational structure, internal rules of operation, the activities and the method of operation of CIFs. In those cases where the CySEC considered that the above proposed changes did not conform to the relevant legislation, approval was not granted.

2.6 Applications for the termination of a CIF operating licence

In 2011, 6 CIF operating licences were terminated (2 in 2010) due to CIFs' resignation of their operating licence (5 CIFs) and to non-activation (1 CIF).

2.7 Applications for registration of CRAs

In 2011, no application has been received for the registration of Credit Rating Agencies (CRAs). In the course of 2011, however, 2 applications for the registration of CRAs which had been submitted the previous year were examined and approved.

3. MONITORING THE COMPLIANCE OF CIFS WITH THEIR CONTINUOUS LEGAL OBLIGATIONS

The CySEC monitored the compliance of CIFs with their continuous legal obligations by either performing on-site inspections at the offices of CIFs or by examining the regular reports/documents submitted to the CySEC as provided for by the Law.

3.1 Performance of on-site inspections and investigations

In 2011, the CySEC performed two on-site inspections (4 in 2010) in order to establish compliance with continuous obligations.

3.2 Examination of regular reports/documents submitted by law to CySEC

In 2011, the CySEC examined the compliance of the CIFs with certain obligations as specified by the Law, through the submission of information to the CySEC. Furthermore, it examined a sample of the monthly, quarterly and half-yearly statements submitted in relation to the capital adequacy of the CIFs and their large financial exposures.

The monthly statements for significant cash transactions of CIFs were also examined.

3.3 Imposition of sanctions

In the cases where the CySEC established non-compliance of CIFs with their continuous obligations as provided for by the Law decided the following, depending on the seriousness of the violations:

- To set a deadline for compliance to a number of CIFs;
- To make a reprimand to 2 CIFs (4 in 2010);
- To impose an administrative fine on 4 CIFs (15 in 2010).

4. LEGISLATION

4.1 Directives

In 2010, one Directive concerning the submission for examination of a notification for a proposed acquisition of a share holding in CIFs was prepared and published.

Furthermore, in 2011, 9 older CySEC Directives were cancelled and re-issued without any material changes (1 for CIF and 1 for CRA in 2010). The need to re-issue the Directives resulted from the decision of the Supreme Court that the appointment of the members of the previous CySEC Board was contrary to the provisions of the CySEC Law.

4.2 Circulars

In 2011, 15 circulars (8 in 2010) were prepared and published, the most significant being:

- Abolition and replacement of the CySEC Directives on capital adequacy and large exposures of IFs by new Directives.
- Own funds and capital adequacy ratio of CIFs.
- Electronic submission of Form 144-05-06.1 for the calculation of capital adequacy.
- Definition of major trading currencies.
- Commencement of electronic submission of Form 144-05-06.1 for the calculation of capital requirements.
- Submission of Forms 144-05-06.1 and 144-06-08.
- Submission of Form 144-05-06.1 with audited financial results.
- Electronic submission of Form 144-06-08.1 for the notification of large exposures to institutions and persons and of Form 144-06-08.2 for the notification of exposures to directors, and B. For the reporting date of Forms.
- Submission of documents by CIFs to the CySEC.
- Notification of an announcement of the Examining Board for the Certification of Employees in Investment Firms and Credit Institutions licensed to operate in the Republic.

4.3 Consultation Papers

In the year 2011, 2 consultation papers were prepared pertaining to CIFs (2 for CIFs and 1 for CRA in 2010).

4.4 Forms

In 2011, 2 forms (4 in 2010) were prepared and published as follows:

- For the examination of a shareholder – natural person.
- For the examination of a shareholder – legal entity.

In addition, a number of amendments were made to the existing forms.

5. PARTICIPATION IN COMMITTEES AND GROUPS

5.1 ESMA Expert groups and sub-groups

The CySEC was represented in 4 different ESMA expert groups or subgroups which are

responsible for the preparation and issue of guidelines regarding the implementation of European Directives 2004/39/EC on Markets in Financial Instruments (Markets in Financial Instruments Directive), 2006/73/EC for implementing Directive 2004/39/EC and European Regulation 1060/2009 for CRAs.

In 2011, a total of 20 meetings and 15 teleconference meetings of the above expert groups and sub-groups were held (24 meetings and 10 teleconference meetings in 2010).

Lastly, in 2011, an officer of the Department participated in an ESMA meeting on ‘ESMA-Pol Forex Task Force’.

5.2 Committees of the Council of the European Union

Officers of the Department participate in 2 technical committees of the Council of the European Union in which the European Commission proposals for the issue of European Directives/ Regulations are discussed.

In 2011, 5 meetings were held in total (4 in 2010).

5.3 Other Committees/Authorities

Officers of the Department participate in the following committees/authorities:

- The Examination Committee responsible for granting professional competence certificates to employees and/or executives of Investment Firms and credit institutions;
- The Administrative Committee of the Investors' Compensation Fund, which is responsible for the administration of the Compensation Fund for Customers of CIFs and other Investment Firms;
- The Advisory Authority which examines issues concerning the prevention of money laundering and terrorist financing;
- The Technical Committee of Supervisory Authorities which examines issues on the supervision of the financial sector as regards the prevention of money laundering and terrorist financing.

Lastly, in 2011, an officer participated in a meeting of the Experts Group of the Moneyval Committee of the Council of Europe on the 4th evaluation report on Cyprus.

6. PARTICIPATION IN TRAINING SEMINARS

Officers of the Department attended training seminars on the following:

- Prevention of money laundering.
- Operational risk management.
- CRD II amendments.
- Depository Receipts, Corporate Governance Code and presentation of the Mechanism of Central Storage of Regulated Information (OAM).
- Basel III.
- Pillar 1 (Capital Adequacy).
- Trading book issues and market infrastructure.
- The basics of financial instruments under IFRSs.

Department for Granting Operating Licences and Supervision of Open-Ended UCITS and UCITS Management Companies

In the framework of the Strategic Plan adopted by the CySEC Board in 2007, the Department for Granting Operating Licences and Supervision of Open-ended UCITS and UCITS Management Companies has set, inter alia, the following objectives:

- To contribute to the completion of the legislative, regulatory and supervisory framework of Cyprus in relation to UCITS in order to fully comply with the relevant European standards and Directives;
- To ensure convergence in the implementation of European Directives and close cooperation with the other EU Supervisory Authorities through regular participation in the various ESMA committees and working groups;
- To contribute to the introduction of a legislative, regulatory and supervisory framework in relation to the Undertakings for Collective Investments not falling within the provisions of the existing framework for UCITS (e.g. Undertakings for Collective Investments in real estate).

1. MARKETING OF UNITS OF FOREIGN HARMONIZED AND NON-HARMONIZED UCITS IN THE REPUBLIC

UCITS based in a Member State other than the Republic, which satisfy the conditions laid down in European Directive 85/611/EEC on the harmonisation of the legislative, regulatory and administrative provisions as regards UCITS ('foreign harmonized UCITS') and which have been granted an operating licence by the competent supervisory Authorities of the said Member State, can market their units in the Republic provided they comply with the existing legislative, regulatory and administrative provisions of the Republic. In order to enable the marketing of units from foreign harmonized UCITS in the Republic, a notification procedure is followed based on Regulation 584/2010 of the European Commission as regards the form and content of the standard notification letter and UCITS attestation, the use of electronic communication between the competent Authorities for the purpose of notification, and procedures for on-spot verifications and investigations and the exchange of information between competent Authorities.

According to the new notification procedure, a UCITS intending to market its units to a Member State other than its Member State of origin submits to the competent Authorities of its Member State of origin, a notification letter and documents provided for in Directive 2009/65/EC. Upon submission of the above, the competent Authorities of the UCITS' Member State of origin confirm the completeness of the notification file prior to its transmission (along with the attestation that the UCITS fulfils the conditions of Directive 2009/65/EC) to the competent Authorities of the Member State in the market of which the UCITS intends to market its units.

Once the competent Authorities of the host Member State receive the notification file, they must confirm to the competent Authorities of the UCITS' Member State of origin the soonest possible but no later than five working days from receipt, if they received all attached documents provided for by the Regulation and if they can promote and print all documents which should have been sent to them. The attestation may be made by an electronic message to the competent Authorities of the UCITS' Member State of origin. When the competent Authorities of the UCITS' Member State of origin confirm that the complete file has been sent, they inform the UCITS accordingly in order to commence marketing its units in the host Member State.

In the context of the above Regulation, the CySEC issued Circular CI-200-2004-02 which sets out the rules of marketing in the Republic of UCITS units coming from another Member State and other rules relating to the UCITS notification procedure.

UCITS based in an EU Member State other than the Republic of Cyprus or a third country (outside the EU) which do not satisfy the conditions laid down in the European Directive 85/611/EEC, as amended ("foreign non-harmonized UCITS") require prior authorisation by the CySEC in order to market their units in the Republic.

Specifically, by the end of 2011, the following UCITS were in operation:

Table 5: Foreign Harmonised UCITS

Number of foreign harmonized UCITS:	2011	2010
Single schemes	43	41
Umbrella schemes	25	21
Total	68	62

Table 6: Foreign Non-harmonized UCITS

Number of foreign non-harmonized UCITS:	2011	2010
Single schemes	0	1
Umbrella schemes	0	4
Total	0	5

Table 7: UCITS Investment Departments

Total number of investment departments (sub-funds under the umbrella schemes)	2011	2010
Harmonized UCITS	384	312
Non-harmonized UCITS	0	18
Total	384	330

Table 8: Country of Origin of foreign UCITS

Country of origin of foreign UCITS	2011	2010
Number of Harmonized UCITS		
Greece	42	40
Luxembourg	21	17
Ireland	4	4
France	1	1
Total	68	62
Number of non-harmonized UCITS		
Jersey Island - Channel Islands	0	5
Total	0	5

In the course of 2011:

- 8 foreign harmonised UCITS were registered with the CySEC for the marketing of their units in the Republic of Cyprus;
- The marketing of the units of 2 foreign harmonised UCITS in the Republic was terminated as a result of their merger with another UCITS;

- The marketing of units of 5 foreign non-harmonised UCITS in the Republic was terminated upon the UCITS' request;
- The number of registered Distributors with the CySEC amounted eventually to 14 and it was at the same levels as in 2010. In particular, in 2011, one new Distributor of harmonized UCITS was registered in the UCITS Distributors' register kept by CySEC and one Distributor was removed therefrom due to the termination of the marketing of the non-harmonised UCITS it represented.

2. CROSS-BORDER PROVISION OF SERVICES IN THE REPUBLIC BY MANAGEMENT COMPANIES DOMICILED IN AN EU MEMBER STATE OTHER THAN THE REPUBLIC

A Management Company which has been granted an operating licence by the competent supervisory Authorities of a Member State other than the Republic, pursuant to the national legislation which adopts Directive 85/611/EEC, as amended, ("harmonized Management Company") and operates in the said Member State, may provide cross-border services in the Republic for which it has been granted a licence, without establishing a branch in the Republic and without the need for obtaining an operating licence from the CySEC. The relevant notification should be submitted to the CySEC by the competent supervisory Authority of the Member State of origin of the Management Company.

In the course of 2011:

- The Department received four (2 in 2010) new notifications for the cross-border provision of services in the Republic by harmonized Management Companies established in an EU Member State other than the Republic (2 in 2009);
- Two Management Companies based in a Member State other than the Republic for the provision of cross-border services in the Republic were removed from the Register upon their request.

By the end of 2011 there was a total of 10 Management Companies (8 in 2010) based in a Member State other than the Republic, which registered with the CySEC for the provision of cross-border services in the Republic:

Table 9: Member States of Origin of UCITS Management Companies

Member States of Origin of UCITS Management Companies	2011	2010
France	5	4
Luxemburg	2	3
Austria	0	1
Lichtenstein	1	0
Greece	2	0
Total	10	8

3. CONTINUOUS OBLIGATIONS OF FOREIGN UCITS, THEIR DISTRIBUTORS IN THE REPUBLIC AND FOREIGN MANAGEMENT COMPANIES FOR CROSS-BORDER PROVISION OF SERVICES

The Department monitors the compliance of foreign harmonized and non-harmonized UCITS and their Distributors regarding their continuous obligations which include:

- The submission by Distributors to the CySEC of statements concerning the marketing in the Republic of units of foreign harmonised and non-harmonised UCITS as from the day of their registration/authorisation by the CySEC;
- The submission by UCITS Distributors to the CySEC on a six-monthly basis of lists of their employees involved in the marketing of units of foreign harmonised and non-harmonised UCITS in the Republic;
- The submission by UCITS of the latest available financial statements and prospectuses and the notification by UCITS to the CySEC of any changes in the forms and information submitted;
- The provision of information to the CySEC and to investors in the Republic of significant facts relating to UCITS (e.g. merger/take-over of UCITS, termination of marketing of UCITS units in the Republic, revocation of issue/redemption of UCITS units, etc.) which may affect investors rights in the Republic;
- The payment by the foreign UCITS and foreign Management Companies of the annual fees, in cooperation with the CySEC Accounting Department.

In one case whereby the CySEC established non-compliance of a Management Company based on a Member State other than the Republic, with Article 122(2) of the Law because the said company provided cross-border investment services in the Republic before transmitting to the Commission the required notification by the competent supervisory authority of its Member State of origin, it decided to reprimand the said company after assessing the seriousness of the breach.

4. INSTITUTIONAL FRAMEWORK

The current legislative framework for UCITS is regulated by the Open-ended Undertakings for Collective Investment in Transferable Securities (UCITS) and Related Matters Law of 2004, as amended in 2008 (the 'Law') harmonized with the EU Directive 85/611/EEC as amended. In July 2009, the Directive 2009/65/EC of the European Parliament and Council of July 13, 2009 was passed, in relation to the coordination of laws, regulations and administrative provisions relating to certain undertakings for collective investment in transferable securities (UCITS) - (UCITS IV). The Cypriot legislation has been harmonised with UCITS IV European Directive and the new Law regulating UCITS has been presented to the supervised UCITS at a one-day seminar held in June 2012.

5. EXPERT GROUP ON INVESTMENT MANAGEMENT

The Senior Officer of the Department participates in the ESMA Expert Group on Investment Management. In 2011, the Senior Officer of the Department participated in 6 meetings (4 in 2010) of the said Expert Group.

6. PARTICIPATION IN OTHER COMMITTEES

The Senior Officer of the Department participates in the Advisory Committee of the Cyprus Investment Promotion Agency (CIPA) in relation to Investment Funds.

7. PARTICIPATION IN SEMINARS

In 2011, the Officers of the Department attended the following seminars:

- UCITS IV organised by KPMG Academy
- Seminars on Depository Receipts, the Mechanism of Central Storage of Regulated Information (OAM) and the CSE Corporate Governance Code and new developments organised by the CSE.

Department of Market Surveillance and Investigations

In the context of the Strategic Plan adopted by the CySEC Board in 2007, the Department of Market Surveillance and Investigations has set, inter alia, the following objectives:

- To improve the Regulatory Framework through the detection and submission of proposals for the elimination of potential weaknesses in the practical implementation of the legislative framework;
- To protect investors through the faster investigation of cases and the prevention of market abuse practices through educating the CIFs on market abuse issues;
- To contribute to the development of a reliable and efficient market through the prevention and effective suppression of market abuse practices.

As a result of the Supreme Court's decision in Appeal no. 1589/2009 in which there is extensive reference in Part A of this Annual Report, the new CySEC Board instructed the Department of Market Surveillance and Investigations to review the previous decisions of the Commission as regards the investigation of cases of market abuse as well as the imposition of administrative sanctions which were revoked. As a result of the need for the Department to investigate many cases again, the Department was called to deal with an especially increased workload which resulted in the investigation of a large number of cases continuing in 2012.

1. POTENTIAL VIOLATIONS CONCERNING THE INSIDER DEALING AND MARKET MANIPULATION (MARKET ABUSE) LAW

In 2011, the Department of Market Surveillance and Investigations investigated cases concerning potential violations related to the Insider Dealing and Market Manipulation (Market Abuse), Law no.116(I)/2005 ('Market Abuse Law').

This category comprises cases concerning the possession, use and disclosure of inside information, market manipulation, the announcement of material information by Issuers, the transactions of the directors of Issuers, etc.

1.1. Potential violation of Article 9(1)(a) of the Market Abuse Law in which it is prohibited for persons in possession of confidential information, to make use of this confidential information for acquiring or marketing financial instruments for their own behalf or on behalf of third parties, either directly or indirectly.

With regard to Article 9(1)(a) of the Market Abuse Law, the Department of Market Surveillance and Investigations investigated three cases, the examination of which continued after the end of 2011 since in two of these cases it was necessary to start the procedure from the beginning as a result of the Supreme Court's Decision in Appeal no. 1589/2009.

1.2. Potential violation of Article 19 as specified by Article 20(1)(c) of the Market Abuse Law in which market manipulation/abuse by any natural or legal entity is prohibited.

With regard to Article 19 of the Market Abuse Law, the Department of Market Surveillance and Investigations investigated seven cases. The investigation of three of the cases continued after the end of 2011. In one case, the Commission decided that there was no potential violation since there was no misleading of the public, while in another case the Commission decided to impose an administrative sanction because the company listed on the CSE manipulated the market when it disseminated through its interim consolidated financial statements and through its annual financial statements, misleading statements

on the company's financial instruments while it knew or ought to have known that this information was misleading. In other three cases, the Commission concluded that it would not proceed to any further actions on the issue since there were no sufficient information, and in the last case which pertained to potential misleading financial statements, the Commission was satisfied that there was no violation.

1.3. Potential violation of Article 11(1) of the Market Abuse Law relating to Issuers' obligations

With regard to Article 11(1) of the Market Abuse Law, the Department of Market Surveillance and Investigations investigated two cases regarding the untimely announcement of a profit warning by two companies listed on the CSE. The Commission decided that there was not a potential violation since it was impossible for the companies in these specific instances to timely issue a profit warning because they did not have the necessary information at material time.

1.4. Potential violation of Article 18 of the Market Abuse Law and of Directive 5/2005 of the Cyprus Securities and Exchange Commission relating to transactions of persons exercising managerial duties

With regard to Article 18 of the Market Abuse Law, the Department of Market Surveillance and Investigations investigated one case which continued after the end of the year under examination.

2. POTENTIAL VIOLATIONS OF THE CYPRUS SECURITIES AND EXCHANGE COMMISSION (ESTABLISHMENT AND RESPONSIBILITIES) LAW AND THE CYPRUS SECURITIES AND EXCHANGE COMMISSION LAW

In 2011, the Department of Market Surveillance and Investigations proceeded with the investigation of cases in relation to potential violations concerning the Law Regulating the Structure, Responsibilities, Powers, Organisation of the Cyprus Securities and Exchange Commission and Other Related Issues, Law no.73(I)/2009.

This category includes cases regarding violations of obligations of any natural or legal entity for prompt, comprehensive and accurate provision of information to the CySEC. These violations are covered by Part VI (Articles 32-40) and Part VII (Article 41) of the Cyprus Securities and Exchange Commission Law of 2009 (Law no.73 (I)/2009).

2.1. Potential violation of Article 41 of the Cyprus Securities and Exchange Commission Law no. 73(I)/2009 whereby a person, during the provision of information for any of the objectives of the said Law or the existing Legislation, makes false statements and conceals information from the CySEC

With regard to Article 41 of the Law, the Department of Market Surveillance and Investigations investigated one case the examination of which continued after the end of the year under examination.

2.2. Potential violation of Article 32 of the Cyprus Securities and Exchange Commission Law no.73(I)/2009 regarding the authority of the CySEC to collect information

With regard to Articles 32(3) and 32(5) of the Law, the Department of Market Surveillance and Investigations investigated four cases. The examination of one of the cases was not completed by the end of the year under examination. In another case, the Commission

decided that there was not a potential violation since the company had eventually fully complied with the request of the CySEC for submission of information. In two cases, the CySEC decided to impose administrative sanctions because in both cases some persons did not comply with the request for the collection of information by the CySEC investigating officers and, in particular, they did not provide the investigating officers with the information requested. In addition, the Commission decided to impose a daily fine on the same persons for each day that they continue to fail to comply with the request for the collection of information by the CySEC investigating officers.

3. POTENTIAL VIOLATIONS OF THE INVESTMENT SERVICES AND ACTIVITIES AND REGULATED MARKETS LAW

During 2011, the Department of Market Surveillance and Investigations proceeded with the investigation of cases in relation to potential violations regarding the Law that provides for Investment Services, Investment Activities, the Operation of Regulated Markets and Other Related Matters (Law no.144(I)/2007).

This category includes cases of violations by companies which provide or appear to provide investment services, without being duly authorised by the CySEC. These violations are pursuant to Articles 4 and 5 of the Investment Services and Activities and Regulated Markets Law (Law no.144(I)/2007).

In addition, violations relating to the operation of a CIF are also included. These violations are covered by Section III, Section IV and Section V of the Investment Services and Activities and Regulated Markets Law (Law 144(I)/2007).

3.1. Potential violation of Article 4(1) of Law 144(I)/2007 regarding the right for the provision of investment services, the conduct of investment activities and the operation of a Regulated Market

With regard to Article 4(1) of Law 144 (I)/2007, in 2010 the Department of Market Surveillance and Investigations investigated twenty cases. In twelve cases, the investigation continued after the end of the year under examination since for nine out of them it was necessary to commence the procedure again as a result of the aforementioned Supreme Court decision in Appeal no. 1589/2009. In two cases, the Commission decided not to proceed to any action since in one case, the company complied with the Commission's recommendations and stopped providing or appearing to provide investment services without a UCITS operating license in the Republic within the deadline set by the Commission, while in the other case the Commission decided not to proceed to any further actions on the issue due to insufficient evidence.

In one case, the Commission decided to make a relevant complaint to the Attorney-General regarding potential criminal offences by the company, by sending all relevant information it had in order to identify the persons that acted on behalf of the company. In five cases, the Commission decided to impose administrative sanctions. In all cases, the companies appeared to provide investment services without having a UCITS operating licence under the Law.

3.2. Potential violation of Articles 12, 13 and 28 of the Investment Services and Activities and Regulated Markets Law regarding persons who really manage a CIF, CIF shareholders and the continuous obligations of CIFs

With regard to Articles 12, 13 and 28 of Law no. 144(I)/2007, the Department of Market Surveillance and Investigations investigated one case whereby the Commission decided that

it could not proceed to any action since it was deemed that the case concerned an issue that should be examined by the Court and not by the Commission.

3.3. Potential violation of Article 18(2) of the Investment Services and Activities and Regulated Markets Law regarding organisational requirements

With regard to Article 18(2) of Law no. 144(I)/2007, the Department of Market Surveillance and Investigations investigated one case whose investigation continued after the end of the year under examination.

3.4. Potential violation of Article 36(1) of the Investment Services and Activities and Regulated Markets Law regarding the conduct of business obligations when providing investment services to clients

With regard to Article 36(1) of Law no. 144(I)/2007, the Department of Market Surveillance and Investigations investigated five cases. In four cases, the investigation continued after the end of the year under examination, while in one case the Commission decided to reprimand the CIF.

4. POTENTIAL VIOLATIONS OF THE TRANSPARENCY REQUIREMENTS (SECURITIES ADMITTED TO TRADING ON A REGULATED MARKET) LAW

During 201, the Department of Market Surveillance and Investigations proceeded with the investigation of cases in relation to potential violations regarding the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market Law) Law no.190(I)/2007.

This category includes cases of violations in which issuers have provided and/or confirmed false or misleading facts or information and/or concealed facts and information, as well as violations relating to the preparation of annual financial statements. These violations are pursuant to Articles 9 and 40 of the Transparency Requirements (Securities Admitted to Trading on a Regulated Market) Law (Law 190(I)/2007).

4.1. Potential violation of Article 9(4) of Law no. 190(I)/2007 regarding the annual financial report of an issuer

With regard to Article 9(4) of Law 190(I)/2007, the Department of Market Surveillance and Investigations investigated one case whereby the Commission decided to impose an administrative fine on the issuer and on each Director of the issuer since it had not prepared the annual financial statements for the years ended on 31 December 2008 and 31 December 2009 in accordance with the Companies Law and, specifically, in accordance with the provisions of the International Accounting Standard (IAS) 24-Related Party Disclosures.

4.2. Potential violation of Articles 28(2) and 30(1) of Law 190(I)/2007 regarding the acquisition or disposal of securities which incorporate voting rights

With regard to Articles 28(2) and 30(1) of Law 190(I)/2007, the Department of Market Surveillance and Investigations investigated one case and this investigation continued after the end of the year under examination.

4.3. Potential violation of Article 40(1) of Law no. 190(I)/2007 regarding false or misleading particulars or information or concealment

With regard to Article 40(1) of Law no. 190(I)/2007, the Department of Market Surveillance

and Investigations investigated one case whereby the Commission decided to impose on each Director of the Issuer an administrative fine because with their statement on the Issuer's Annual Financial Report for the year ended on 31.12.2008, they proceeded with confirmation of false and/or misleading information, i.e. that the issuer's annual financial statements for the year ended on 31.12.2008 were drawn in accordance with the International Standards of Financial Reporting while the said statements have not been drawn in accordance with International Accounting Standard (IAS) 24.

5. POTENTIAL VIOLATIONS OF THE TAKEOVER BIDS LAW

In 2011, the Department of Market Surveillance and Investigations proceeded with the investigation of cases in relation to potential of the Public Takeover Bids Law (Law N.41(I)/2007).

This category includes cases of potential violations whereby a person, as a result of the acquisition by him/her or by persons acting in concert, possesses securities of a company, which, added to any securities already held and to the securities held by persons acting in concert, give him/her directly or indirectly the right to control a percentage equal to or greater than thirty per cent (30%) of the voting rights and does not proceed to a compulsory public bid. This violation is pursuant to Article 13(1) of the Public Takeover Bids Law (Law N.41(I) 2007).

5.1. Potential violation of Article 13(1) of Law N.41(I)/2007 regarding the compulsory public bid

With regard to Article 13(1) of Law no. 41(I)/2007, the Department of Market Surveillance and Investigations investigated four cases. In three cases, the investigation continued after the end of the year under examination. In the fourth case, the Commission decided not to impose an administrative fine on a Director of the Issuer since the additional shares he had acquired corresponded to a negligible percentage over the issuer's total issued shares and with this acquisition, the rights of the issuer's shareholders do not appear to have been affected in any way.

6. POTENTIAL VIOLATIONS OF THE CYPRUS SECURITIES AND STOCK EXCHANGE LAW

In 2011, the Department of Market Surveillance and Investigations proceeded with the investigation of cases in relation to potential violations of the Cyprus Securities and Stock Exchange Law, Law N.14(I)/1993.

This category includes cases of violations relating to the obligations of issuers that have their securities listed on the Cyprus Stock Exchange.

6.1. Potential violation of Article 130 in which the issuing company provides for and ensures the equal treatment of shareholders under the same conditions.

With regard to Article 130 of the Law 14(I)/1993, the Department of Market Surveillance and Investigations investigated six cases. In five cases, the investigation continued after the end of the year whereas in the sixth case, the CySEC decided to impose an administrative fine on each Director of the issuer, since the issuer, through the actions of its Board of Directors that approved the issuer's financial statements for the year 2009, had not ensured the equal treatment of its shareholders but instead, favoured the major shareholders at the expense of the remaining shareholders.

7. COOPERATION OF THE CYSEC WITH THE LEGAL SERVICE OF THE REPUBLIC

The CySEC, pursuant to Article 35(1)(a) of the Cyprus Securities and Exchange Commission Law of 2009 (Law N.73(I)/2009), in cases where a potential violation possibly constitutes a prima facie criminal offence, draws up a finding or a report of the facts and submits it with all information held in its possession to the Attorney General of the Republic.

The CySEC sent four cases to the Attorney General of the Republic in order for the latter to determine whether or not any criminal offences were committed by individual companies or other persons.

8. MONITORING AND INVESTIGATING INVESTORS' COMPLAINTS AGAINST INVESTMENT FIRMS, LISTED ISSUERS AS WELL AS COMPLAINTS OF OTHER NATURE

In 2011, the CySEC received fifty-five investor complaints against Investment Firms. In sixteen cases, the investigation continued after the end of 2011 while in thirty-nine cases which were investigated, there was no violation either because the case did not require any further investigation or because the complainant did not give sufficient information to enable the investigation or because eventually the complainant received sufficient explanations by the CIF and withdrew its complaint.

We also note that in 2011, the CySEC received fifty-six investor complaints against Companies which illegally provided Investment Services.

With regard to these complaints, the Department of Market Surveillance and Investigations conducts on site inspections in order to establish whether there is physical presence of the company in Cyprus, carries out inspections through the websites of the companies in order to establish whether a company appears to provide investment services through its website without a CIF operating licence and also proceeds with the collection of information by sending relevant letters to persons which are assessed as being in a position to give useful information to the Commission. In cases where it is established that the company provides or appears to provide investment services without a CIF operating licence, the CySEC issues a warning to the investing public.

In 2011, fourteen warnings have been issued by the CySEC with regard to companies not holding a CIF operating licence and which do not constitute a bank or a cooperative credit institution based in the Republic and for which no relevant notification has been received by a competent authority of a Member State.

Lastly, in 2011, the CySEC received sixteen investor complaints against issuers of securities listed on the Stock Exchange. In five cases, the investigation continued after the end of 2011 while in the eleven cases which were investigated, there was no violation.

9. COOPERATION OF THE CYSEC WITH OTHER SUPERVISORY AUTHORITIES

In 2011, the CySEC received fifty requests from foreign supervisory Authorities for assistance. Based on these requests, the CySEC may proceed to the collection of information and to the lifting of bank confidentiality relating to legal and natural persons as provided for by Article 32(4) of the Cyprus Securities and Exchange Commission Law of 2009 (Law no. 73(I)2009) in order to collect information on behalf of foreign supervisory Authorities.

In 2011, the CySEC proceeded in thirteen cases with the lifting of bank confidentiality.

10. PARTICIPATION IN COMMITTEES AND GROUPS OF THE EUROPEAN UNION

Officers of the Department participated in the following meetings:

- Procedures Committee of the Committee of European Securities Regulators (CESR) CESR-Pol (current ESMA-Pol),

ESMA-Pol

The ESMA-Pol Standing Committee undertakes ESMA's work on issues relating to market surveillance, enforcement of securities laws, facilitation of cooperation of national Authorities and exchange of information in market abuse investigations.

Regarding surveillance, the Standing Committee works in order to enhance the efficiency and effectiveness of the market surveillance activities of national Authorities, including the use of various market surveillance tools (including analysis of transaction reports). The Standing Committee also provides a forum in which national Authorities may share their experiences concerning their market surveillance and enforcement activities.

In the area of cooperation, the Standing Committee works to ensure efficient and timely cooperation in cross-border cases and facilitates sharing of information under the ESMA MMoU.

Finally, the Standing Committee is responsible for elaborating advice to the European Commission, and technical standards and guidelines and recommendations on issues relating to the integrity of markets (e.g. Market Abuse Directive and short selling).

- Participation in the Working party on Financial Services of the EU Council for the examination of the draft Regulation on Short Selling and certain aspects of Credit Default Swaps.

Short selling

Draft Regulation of the European Parliament and Council on short selling and certain aspects of Credit Default Swaps (CDS).

The main objectives of the Regulation are to create a harmonised framework for coordinated action at European level, increase transparency and reduce risks. With the new framework, the regulatory Authorities – national and European – shall provide clear powers to proceed with actions, where necessary, preventing at the same time market segmentation and ensuring the smooth operation of the internal market.

Legal Department

1. DUTIES

In the context of the Strategic Plan adopted by the CySEC Board, the Legal Department has set its objectives which are, inter alia, the completion of the legislative and regulatory framework in order to fully comply with the European Directives and Standards as well as to meet the needs of the Cyprus market.

The duties of the Legal Department include mainly the monitoring of the Legislation on securities market, the preparation and submission of recommendations for the amendment of the relevant legislations, the keeping of an archive for the cases of the CySEC pending before the Court, the monitoring, coordination and cooperation with external legal advisors of the Commission, the keeping of minutes, the filing of decisions, the keeping of a composition archive, the announcements of decisions, the legal support of the Commission (correspondence – internal opinions to the Service/Board – investigations), the provision of opinions/answers to the questions received by the Commission, the harmonisation of the legislation with the European Union and communication with the supervisory Authorities abroad – exchange of information and cooperation protocols as well as the daily legal support of the Commission and the rest of the Departments of the CySEC.

Since the end of 2011, for the effective preparation and completion of the Presidency of the Council of the European Union by the Republic of Cyprus, an officer of the Department has been detached to the Permanent Representation of the Republic of Cyprus to Brussels, in order to handle the matters of the Working Groups of the Council of the European Union on financial services. The said Officer represents the Republic of Cyprus in her capacity as Attaché-Financial Affairs.

2. PREPARATION OF REGULATIONS, DIRECTIVES AND AMENDING LAWS

The aforementioned decision in Appeal no.1589/2009 affected all existing CySEC Directives issued by the Commission and published by the same to the Official Gazette of the Republic in view of the fact that the issue and publication of the Directives derived from decisions of an incompetent body. In order to avoid any legal problems in the future, the Legal Department re-published all the Directives of the Commission, incorporating therein their amendments to this day, in view of facilitating the public.

The Directives which have been re-published are as follows:

(A) CySEC Directives on Investment Firms:

- 1) **Directive DI144-2007-01** (No.4525 17.10.2011 R.A.A. 384/2011) regarding the authorisation and operating conditions of CIFs, which repeals Directives DI144-2007-01 (with reference R.A.A. 426/2007) and DI144-2007-01(A) (with reference R.A.A.127/2011).
- 2) **Directive DI144-2007-02** (No. 4525 17.10.2011 R.A.A. 385/2011) regarding the professional competence of IFs, which repeals Directive DI144-2007-02 (with reference R.A.A.. 427/2007)
- 3) **Directive DI144-2007-03** (No. 4525 17.10.2011 R.A.A. 386/2011) regarding the submission of application for the granting or extension of CIF authorisation, which repeals Directive DI144-2007-03 (with reference R.A.A. 507/2007).
- 4) **Directive DI144-2007-04** (No. 4525 17.10.2011 R.A.A. 387/2011) regarding charges and annual fees of IFs, which repeals Directives DI144-2007-04 (with reference R.A.A. 528/2007), DI144-2007-04A (with reference R.A.A. 122/2008), DI144-2007-04B (with

reference R.A.A. 168/2009), DI144-2007-04C (with reference R.A.A. 361/2009), DI144-2007-04D (with reference R.A.A. 92/2010) and DI144-2007-04E (with reference R.A.A. 278/2011).

- 5) **Directive DI144-2007-05** (No. 4525 17.10.2011 R.A.A. 388/2011) regarding capital adequacy of IFs, which repeals Directive DI144-2007-05 (with reference R.A.A. 518/2010).
- 6) **Directive DI144-2007-06** (No. 4525 17.10.2011 R.A.A. 389/2011) regarding large exposures of IFs, which repeals Directives DI144-2007-06 (with reference R.A.A. 519/2010) and DI144-2007-06(A) (with reference R.A.A. 218/2011).
- 7) **Directive DI144-2007-07** (No. 4525 17.10.2011 R.A.A. 390/2011) regarding market transparency requirements, which repeals Directive DI144-2007-07 (with reference R.A.A. 269/2008).
- 8) **Directive DI144-2007-08** (No. 4525 17.10.2011 R.A.A. 391/2011) regarding the prevention of money laundering and terrorist financing, which repeals Directives DI144-2007-08 (with reference R.A.A. 95/2009) and DI144-2007-08(A) (with reference R.A.A. 151/2009).
- 9) **Directive DI144-2007-09** (No. 4525 17.10.2011 R.A.A. 392/2011) regarding the General Meetings of the members of ICF for Clients of IFs, which repeals Directive DI144-2007-09 (with reference R.A.A. 372/2010).
- 10) **Directive DI144-2007-10** (No. 4525 17.10.2011 R.A.A. 393/2011) regarding the preventive assessment of holding in CIF's capital, which repeals Directive DI144-2007-10 (with reference R.A.A. 279/2011).
- 11) **Directive DI144-2007-11** (No. 4525 17.10.2011 R.A.A. 394/2011) regarding IF Financial Conglomerates, which repeals Directive 1-2005 (with reference R.A.A. 495/2005).

(B) CySEC Directives on UCITS

- 1) **Directive DI200-2004-01** (No. 4525 17.10.2011 R.A.A. 395/2011) regarding the permitted forms of investments by UCITS, which repeals Directive DI200-2004-01 (with reference R.A.A. 132/2008).
- 2) **Directive DI200-2004-02** (No. 4525 17.10.2011 R.A.A. 396/2011) regarding UCITS distributors, which repeals Directive DI200-2004-02 (with reference R.A.A. 394/2008).
- 3) **Directive DI200-2004-03** (No. 4525 17.10.2011 R.A.A. 397/2011) regarding the marketing in the Republic of Cyprus of units of foreign non-harmonised UCITS, which repeals Directive DI200-2004-03 (with reference R.A.A. 413/2008).
- 4) **Directive DI200-2004-04** (No. 4525 17.10.2011 R.A.A. 398/2011) regarding the making of UCITS advertisements, which repeals Directive DI200-2004-04 (with reference R.A.A. 452/2008).
- 5) **Directive DI200-2004-05** (No. 4525 17.10.2011 R.A.A. 399/2011) regarding the notification of significant events by the Commission for foreign harmonised UCITS, which repeals Directive DI200-2004-06 (with reference R.A.A. 153/2009).
- 6) **Directive DI200-2004-06** (No. 4525 17.10.2011 R.A.A. 400/2011) regarding the publication of unit prices of foreign UCITS, which repeals Directive DI200-2004-07 (with reference R.A.A. 216/2009).
- 7) **Directive DI200-2004-07** (No. 4525 17.10.2011 R.A.A. 401/2011) regarding authorisation requirements and the continuous obligations of the Management Company, which repeals Directive DI200-2004-08 (with reference R.A.A. 482/2010).
- 8) **Directive DI200-2004-08** (No. 4525 17.10.2011 R.A.A. 402/2011) regarding the procedure of submission of an application for a UCITS authorisation, which repeals

Directive DI200-2004-09 (with reference R.A.A. 126/2011).

- 9) **Directive DI200-2004-09** (No. 4525 17.10.2011 R.A.A. 403/2011) regarding the specialised information included in the Simplified Prospectus, which repeals Directive UCITS 1-2006 (with reference R.A.A. 147/2006).

(C) CySEC Directives on Market Abuse

- 1) **Directive DI116-2005-01** (No. 4525 17.10.2011 R.A.A. 404/2011) regarding the obligations of issuers of financial instruments, which repeals Directives 1/2005 (with reference R.A.A. 443/2005), DI116-2005-03 (with reference R.A.A. 204/2008), DI116-2005-05 (with reference R.A.A. 167/2009) and DI116-2005-08 (with reference R.A.A. 378/2010). This Directive was further amended in 2011 with Directive DI116-2005-01(A) (No. 4534 2.12.2011 R.A.A. 497/2011).
- 2) **Directive DI116-2005-02** (No. 4525 17.10.2011 R.A.A. 405/2011) regarding elements taken into account when assessing market manipulation, which repeals Directive 2/2005 (with reference R.A.A. 444/2005).
- 3) **Directive DI116-2005-03** (No. 4525 17.10.2011 R.A.A. 406/2011) regarding market manipulation methods, which repeals Directive 3/2005 (with reference R.A.A. 445/2005).
- 4) **Directive DI116-2005-04** (No. 4525 17.10.2011 R.A.A. 407/2011) regarding the accepted market practices, which repeals Directive 4/2005 (with reference R.A.A. 446/2005).
- 5) **Directive DI116-2005-05** (No. 4525 17.10.2011 R.A.A. 408/2011) regarding the code of conduct of advisors and related persons, which repeals Directives 5/2005 (with reference R.A.A. 447/2005), CSE Directive 1/2006 (with reference R.A.A. 226/2006), CSE Directive 2/2006 (with reference R.A.A.333/2006), CSE Directive 1/2007 (with reference R.A.A. 131/2007), Directive DI116-2005-01 (with reference R.A.A. 60/2008), Directive DI116-2005-02 (with reference R.A.A. 131/2008), Directive DI116-2005-04 (with reference R.A.A. 354/2008), Directive DI116-2005-06 (with reference R.A.A. 167/2010) and Directive DI116-2005-07 (with reference R.A.A. 364/2008).
- 6) **Directive DI116-2005-06** (No. 4525 17.10.2011 R.A.A. 409/2011) regarding the notification of transactions of persons discharging managerial responsibilities within an issuer and of the persons closely associated with them, which repeals Directive 6/2005 (with reference R.A.A. 574/2005).

(D) CySEC Directives on Public Takeover Bids

- 1) **Directive DI41-2007-01** (No. 4525 17.10.2011 R.A.A. 410/2011) regarding the Announcement of Intention or Final Intention to make a takeover bid, which repeals Public Takeover Bid Directive 1/2007 (with reference R.A.A. 164/2007) and Directive DI41-2007-05 (with reference R.A.A. 18/2008)
- 2) **Directive DI41-2007-02** (No. 4525 17.10.2011 R.A.A. 411/2011) regarding Public Takeover Bid charges, which repeals Public Takeover Bid Directive 2/2007 (with reference R.A.A. 165/2007).
- 3) **Directive DI41-2007-03** (No. 4525 17.10.2011 R.A.A. 412/2011) regarding the content of the Public Takeover Bid Offer, which repeals Public Takeover Bid Directive 3/2007 (with reference R.A.A. 166/2007).
- 4) **Directive DI41-2007-04** (No. 4525 17.10.2011 R.A.A. 413/2011) regarding the criteria to be taken into account in evaluating the expert's independence, which repeals Public Takeover Bid Directive 4/2007 (with reference R.A.A. 167/2007).

(E) CySEC Directives on Transparency Requirements

- 1) **Directive DI190-2007-01** (No. 4525 17.10.2011 R.A.A. 414/2011) regarding the notification of major holdings in an issuer, which repeals Directive DI190-2007-01 (with reference R.A.A. 47/2008).
- 2) **Directive DI190-2007-02** (No. 4525 17.10.2011 R.A.A. 415/2011) regarding the conditions of independence between management companies and IF and their parent companies to be exempted from the obligation to aggregate their holdings, which repeals Directive DI190-2007-02 (with reference R.A.A. 48/2008).
- 3) **Directive DI190-2007-03** (No. 4525 17.10.2011 R.A.A. 416/2011) regarding the dissemination of regulated information, which repeals Directives DI190-2007-03 (with reference R.A.A. 49/2008) and DI190-2007-03(A) (with reference R.A.A. 183/2010).
- 4) **Directive DI190-2007-04** (No. 4525 17.10.2011 R.A.A. 417/2011) regarding the content of the annual financial report, which repeals Directive 190-2007-04 (with reference R.A.A. 181/2009).
- 5) **Directive DI190-2007-05** (No. 4525 17.10.2011 R.A.A. 418/2011) regarding Third Countries (equivalent requirements), which repeals Directive 190-2007-05 (with reference R.A.A. 404/2009).
- 6) **Directive DI190-2007-06 and Form 190-06-01** (No. 4525 17.10.2011 R.A.A. 419/2011) regarding the Acquisition or Disposal of Voting Rights From Market Maker (separate texts), which repeals Directive 190-2007-06 (with reference R.A.A. 254/2010).
- 7) **Directive DI190-2007-07** (No. 4521 7.10.2011 R.A.A. 369/2011) regarding Issuers' Annual Fees, which repeals Directive DI190-2007-07 (with reference R.A.A. 490/2010).

(F) General CySEC Directives

- 1) **Directive DI73-2009-01** (No. 4525 17.10.2011 R.A.A. 420/2011) regarding Credit Rating Agencies, which repeals Directive DI73-2009-01 (with reference R.A.A. 348/2010).
- 2) **CSE Directive 01/2011** (No. 4525 17.10.2011 R.A.A. 421/2011) regarding notification of the acquisition or disposal of major holdings, which repeals CSE Directive 2006/01 (with reference R.A.A. 362/2006).

3. PARTICIPATION IN ESMA COMMITTEES AND GROUPS

In the course of 2011, Officers of the Legal Department participated in the following meetings:

- in three meetings of the Expert Group with regard to the European Directive on Alternative Investment Fund Managers, and
- in a meeting of the Expert Group on Takeover Bids Network.

Representatives of the competent supervisory Authorities of all Member States, representatives of the European Commission and the ESMA Secretariat participate in the meetings of the said expert groups. The CySEC was represented by one Officer of the Legal Department for each expert group.

4. PARTICIPATION IN WORKING PARTIES OF THE COUNCIL OF EUROPE IN BRUSSELS

In 2011, Officers of the Legal Department participated in the following meetings:

- 1st meeting of the working party on Financial Services (Review of Transparency Directive)
- 1st meeting of the working party on the review of the Market Abuse Directive.

Specialised experts of the competent ministries/services of all Member States as well as representatives of the European Commission and the Secretariat of the European Council participate in the meetings of the said expert groups. The CySEC was represented by one Officer of the Legal Department for each expert group.

5. TRAINING SEMINARS

In 2011, Officers of the Legal Department attended the following training seminars/conferences:

- Seminar on “New Developments at the Cyprus Stock Exchange on Depository Receipts (DRs) and Corporate Governance Code” organised at CSE offices in Nicosia.
- Conference of International Takeover Regulators held in Vienna.

Administration and Personnel Department

The Department mainly deals with economic, administrative and personnel issues. Along with the objective of ensuring the economic autonomy of the Commission, the Department acts in such a way so as to obtain the resources necessary for carrying out the work of the Commission.

The Department consists of two Officers, two Assistant Secretarial Officers and one Office Assistant. One of the Officers and the Office Assistant were recruited in 2011.

1. FINANCIAL ISSUES

Budget

The Department is responsible for the preparation of the budget as well as for monitoring faithful budget execution. Within the above framework, the Department is responsible for undertaking and monitoring the revenues and paying the expenses of the Commission.

The Department carries out competitions for the supply of consumables and equipment for the needs of the Commission and carries out or assists other Departments in the carrying out of competitions for the purchase of services in relation to the Commission's activities. Furthermore, the Department is responsible for the preparation of the Commission's Financial Statements which are audited by the Auditor General of the Republic.

Financial autonomy of the CySEC

Further to the medium-term objective of ensuring the financial autonomy of the CySEC and following the recommendations of the European Commission and in accordance with the 2009 De Larosiere Report, and as a result of the financial crisis, efforts have been made to reduce the expenditures of the Commission's budget. At the same time, grants have been obtained, where possible, for the Commission's activities.

2. PERSONNEL ISSUES

Personnel Rules

The Department deals with the monitoring and observance of Personnel Rules as well as with the changes needed from time to time. This includes personnel's leaves of absence, recruitment procedures, organisational structure issues and other operational issues. Within the framework of monitoring the Personnel Rules, various personnel requests are examined in cooperation with the CySEC Chairwoman and Vice-Chairman, either isolated or through the personnel's union.

Needs in Personnel

A study is carried out every year in cooperation with the other Departments as regards the Commission's needs in personnel in terms of number of persons, specialisation and ranks. The needs are agreed with the CySEC Chairwoman and Vice-Chairman and, once approved by the Board, are included in next year's budget.

In 2011, 12 persons have been recruited in total enhancing significantly the Commission's human resources. In particular, 8 Officers, 1 Officer specialised in Law, 1 Officer specialised in Information Technology, 1 Assistant Secretarial Officer and 1 Office Assistant have been recruited.

Personnel Training

The Department coordinates personnel training. Training needs are set out by each Department. The Department of Administration and Personnel assists in identifying relevant

seminars, organising internal training, obtaining sponsorships (where possible) and selecting the most important educational subjects which the personnel needs to attend according to the Commission's financial capacity.

Provident/ Welfare Fund

The Department's duties also include keeping the Provident Fund archive of the CySEC employees as well as the Welfare Fund archive. At the end of each year, the financial statements of both Funds are prepared and, once audited by external auditors, they are approved by their members.

3. OTHER ISSUES

Administrative Issues

The Department is also responsible for other mainly administrative issues, such as maintaining the offices, which house the Commission, ensuring the correct management and maintenance of the equipment. It also participates in the CySEC's Safety and Health Committee and its responsibilities include the monitoring and resolving of any problems may arise.

Investor Compensation Fund of Clients of CIFs (ICF)

The Department provides secretarial support to the Investor Compensation Fund of Clients of CIFs. The CySEC participates in the Administrative Committee of the ICF with its Vice-Chairman, and since the ICF does not employ any person, the Department carries out all ICF works –from correspondence and accounting work to the preparation of the minutes of the meetings and the preparation of the financial statements which, once audited by the Attorney General of the Republic, they are approved by their members.

4. PARTICIPATION IN ESMA COMMITTEES AND GROUPS

The Department participates in the ESMA group responsible for the development of a common culture and cooperation amongst the EU Financial Supervisory Commissions. In the context of this group, a project was completed regarding the creation of a common policy for the exchange of personnel of ESMA members, as well as the promotion of a common training in cooperation with the other two Authorities which constitute the third level of the comitology for the financial sector, i.e. the European Banking Authority (EBA) (credit institutions) which succeeded it and the European Insurance and Occupational Pensions Authority (EIOPA) (insurance and pension funds). Within the above context, the study for the development of the CySEC personnel training policy has continued.

IT and Operations Department

In the framework of the Strategic Plan adopted by the CySEC Board in 2007, the IT and Operations Department has, inter alia, set the following objectives:

- To ensure high standards of information and protection of investors through the continuous upgrading of the official website of the CySEC;
- To ensure high standards of operation of the electronic systems of the CySEC through the implementation of the Document Management System and the creation of a Database Management System;
- The continuous training of the CySEC personnel in order to ensure high efficiency through the use of information technology.

1. WEBSITE

The aim of the CySEC website is the easy provision of useful information on Cyprus Securities Market to investors as well as to other interested parties such as Investment Firms, Issuers, etc. The CySEC offers an “Email Alerts” public service free of charge which automatically notifies subscribers as soon as any significant change/addition is made to the CySEC website.

2. SAFETY OF INFORMATION

The Department places great importance on the appropriate and safe keeping of information having in mind its confidential nature. In addition, a CySEC personnel training programme was developed on the various IT systems aiming at better familiarisation.

3. IT PROJECTS

3.1 Document Management System

The Document Management System (DMS) will form in the near future the central core for the management of the CySEC documents and operations. This system will be used as an electronic archive for the CySEC documents. Further to providing document storage, this system will enhance automation of the workflow by automatically forwarding documents to another department/officer for further processing. In addition, the system will categorise/encode documents, document users' roles and provide the possibility of controlling the destruction/keeping of documents.

Therefore, the CySEC has proceeded with the creation of a Central Archive team which will operationally come under the IT and Operations Department, and of the groups which will be created, e.g. the State Archive and Document Safety groups.

Furthermore, the CySEC, in cooperation with the Cyprus Stock Exchange, is currently in the final stages prior to the introduction of the electronic signature which will enable the supervised institutions to send and receive correspondence to and from the CySEC in a secure electronic manner. The electronic forms which will be received by the CySEC will be channelled directly into the Document Management System for quick processing.

Along with the implementation of this specific System, all internal work flows will be reviewed in order to ensure quicker processing of operations.

3.2 Notification of Transactions

In 2011, the Transaction Reporting Exchange Mechanism (TREM), and specifically the TREM3.0 version, was further developed in accordance with Article 25 of MiFID Directive 2004/39/EC.

3.3 Capital Adequacy System

During the year, the system of capital adequacy was further developed allowing the CySEC to also process the specific Forms 8 of CIFs for calculating capital requirements in accordance with the fundamental approach for credit and market risk and extracting statistics and other useful information. The system allows for the electronic submission and immediate processing of the form, thus avoiding large volumes of archiving and time consuming procedures.

3.4 IF Database System

The Department, in cooperation with the IF Department, developed the aforementioned system in which all relevant information on licensed IFs, such as corporate particulars, activities, organisational and share structure, executives, etc. will be stored.

3.5 Network Management

- A market research, study and competition was commenced and completed for the purchase and installation of a new Fire Safety System in the servers room in replacement of the older system;
- The EU Firewall regulations were inspected and renewed;
- A study on the transition of EU e-Post Office system was commenced and completed
- Older software versions were upgraded and in many cases there was a transition to Microsoft Office 2010;
- Older computers were upgraded;
- A study on the upgrading of the central server and the transition to new more recent software (Windows Server 2008) was commenced.

4. EUROPEAN ISSUES

The Department participates in ESMA-ITMG, ESMA's Standing Committee as well as in the Transaction Reporting System Joint Sub-Group. During the meetings of the representatives of all EU Member States, new IT projects of the Supervisory Authorities and improvements of the current projects are discussed as well as issues on the upgrading of the quality of the information exchanged through the IT systems. These contacts facilitate the enrichment of knowledge and the better utilisation of information in exercising the responsibilities of the CySEC.



SECTION D

1. Legislation
2. Duties of individual Departments

Annex 1

LEGISLATION

The legislations on the responsibilities and powers of the CySEC are as follows:

- The Cyprus Securities and Exchange Commission Law of 2009 (entered into force on 10.7.2009)
- The Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Laws of 2001 – 2007 (abolished on 10.7.2009)
- The Securities and Cyprus Stock Exchange Laws of 1993 – 2009 and the Regulations issued pursuant to these Laws
- The Public Takeover Bids Law of 2007 and 2009
- The Securities and Cyprus Stock Exchange (Central Securities Depository and Central Securities Registry) Laws of 1996 -2009
- The Possession, Use and Announcement of Privileged Information, the Supervisory Competence of the Cyprus Securities and Exchange Commission and other Related Issues Laws of 1999 – 2001 and the Regulations of 2000-2002 issued pursuant to these laws (abolished on 9.9.2005)
- The Insider Dealing and Market Manipulation (Market Abuse) Laws of 2005 – 2007
- The Undertakings for Collective Investment in Transferable Securities (UCITS) and Related Issues Laws of 2004 and 2008
- The Investment Firms (IF) Laws of 2002 and 2005 (abolished on 1.11.2007)
- The Investment Services and Activities and Regulated Markets Law of 2007 and 2009
- The Public Offer and Prospectus Law of 2005
- The Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law of 2007 and 2009
- The CySEC was appointed as one of the competent Supervisory Authorities regarding the implementation of the Concealment, Investigation and Confiscation of Proceeds from Certain Criminal Acts Law of 1996 to 2004 and the Prevention and Suppression of Money Laundering Activities Law of 2007

Annex 2

DUTIES OF INDIVIDUAL DEPARTMENTS

A. Department of Strategy, Economic Analysis and International Relations

The duties of the Department of Strategy, Economic Analysis and International Relations mainly include the following:

- **Support of the Chairman and Vice-chairman, and issues of Strategy and Policy**
 - Involvement in the monitoring and evaluation of developments with regard to the securities market and the institutional framework.
 - Submission of recommendations to the CySEC Chairman and Vice-chairman for strategy and objectives formulation for the CySEC in the light of developments in the securities market. The recommendations may refer to organisational issues, upgrading and improving the regulatory and supervisory framework, investor education and protection and in general the better implementation of the CySEC objectives.
 - Monitoring of issues resulting from the decisions taken at the CySEC Board Meetings and the implementation of those decisions.
 - Monitoring the implementation of the strategic plan of the CySEC and briefing the Chairman and Vice-chairman at regular intervals.

- Ensuring the effective operation of the planning procedure and the constructing of individual action plans.
 - Support of the CySEC Chairman and Vice-chairman to improve the internal coordination of the CySEC operations.
- **Matters of Internal and External Communication**
 - Submission of recommendations for matters of Internal and External Communications Policy
 - Preparation and editing of publications of the CySEC (Annual Report, brochures and educational booklets, etc.) as well as of informative articles
 - Organisation of communication activities, seminars, conferences and other events
 - Monitoring of domestic and international daily press and the developments at a European and international level
 - Participation in the internal team for crisis management.
- **Matters of Financial Education**
 - Submission of recommendations for financial educational programmes for the public
 - Application/monitoring of the implementation of financial educational programmes for the public
 - Coordination and participation in the Advisory Committee for Public Financial Education
- **International Relations**
 - Communication with competent supervisory Authorities and organisations (e.g. IOSCO, IMF, etc.) abroad (except for notifications to and from the CySEC which are carried out directly by the competent Departments).
 - Negotiation and agreement of Memoranda of Understanding with competent supervisory Authorities abroad.
- **Representation of the CySEC**
 - Internal Coordination in relation to ESMA and the representation of the CySEC on the Review Panel of ESMA, as well as participation in expert groups of ESMA - Post Ecofin Task Force subgroup and CEMA.
 - Coordination and cooperation with Government Departments such as the Ministry of Finance and the Office of Planning, regarding Cyprus' obligations as a member of the European Union (in cooperation with the Legal Department), and other issues.
 - Internal coordination of relationships and communication with the other competent supervisory Authorities of the Cyprus financial sector.
 - Representation of the CySEC (together with the Chairman and the Vice-chairman) at the Committee of the Supervisory Authorities of the Financial Sector of the Republic
 - Representation of the CySEC (together with the Vice-chairman) at the Committee on Financial Stability
 - Submission of recommendations on issues of the corporate social responsibility of the CySEC and internal coordination for their implementation

B. Department for Granting Licences, Listing and Continuous Obligations of Issuers

The duties of the Department for Granting Licences, Listing and Continuous Obligations of Issuers mainly include the following:

- The examination of applications for the approval of prospectuses for the public offer of

transferable securities or their admission to trading on a regulated market pursuant to the Public Offer and Prospectus Law of 2005;

- The monitoring of the compliance with the Public Offer and Prospectus Law of 2005;
- The examination of Public Takeover Bid documents for the public takeover of companies whose securities are listed on a regulated market;
- The monitoring of the compliance with the Public Takeover Bids Law of 2007;
- The examination of applications of Issuers for the expansion/diversification of their activities;
- The monitoring of the compliance of companies whose transferable securities are listed on a regulated market with their continuous obligations under the Transparency Requirements (Transferable Securities Admitted to trading on a Regulated Market) Law and, more specifically, as regards their obligations for providing regular information;
- The monitoring of the application and compliance by companies of the Corporate Governance Code;
- The participation in Standing Committees, Expert Groups as well as Contact Groups of CESR for issues relating to the Department's responsibilities;
- The review of proposed legislative measures relating to the Department's responsibilities and the submission of relevant proposals.

C. Department for Granting Operating licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies

The duties of the Department for Granting Operating licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies mainly include the following:

- The examination of applications for granting CIF5 operating licences as well as any applications for amendments thereof;
- The examination of applications by CIFs for granting licence for the provision of services outside Cyprus either through a branch or cross-border;
- The examination of applications for the approval of changes in particulars included in the applications for granting a CIF operating licence;
- The examination of applications for approval of tied agents of CIFs;
- The contacts and meetings with companies, which are at the stage of preparing their application for granting of a CIF operating licence for discussing issues relating to their application;
- The contacts and meetings with CIF representatives for discussing issues relating to the business activities of CIFs;
- The monitoring of the compliance of CIFs with their continuous obligations pursuant to the Law;
- The monitoring of the compliance of CIFs with the Prevention and Suppression of Money Laundering Activities Law of 2007;
- The examination of applications for granting a regulated market operating licence as well as any applications for any amendment thereof;
- The examination of applications for the approval of changes in particulars concerning a regulated market – market operator;
- The monitoring of the compliance of regulated markets – market operators with their continuous obligations under the Law;
- The participation in the supervisors colleges (comprising experts from Member States) for the examination of applications for granting a CRA operating licence;
- The participation in the supervisors colleges (comprising experts from Member States) for the monitoring of the compliance by CRAs with their continuous obligations pursuant

to the EU Regulation;

- The study, preparation and issue of the CySEC Directives, Circulars and Forms pursuant to the Investment Services and Activities and Regulated Markets Laws of 2007 and 2009;
- The study of legal framework for Credit Rating Agencies;
- The training of the entities involved;
- The participation in experts groups of the European Securities and Markets Authority (ESMA) on issues relating to the Department's responsibilities;
- The participation in meetings of the European Securities Committee as experts – advisors of the Ministry of Finance;
- The participation in the Examination Committee responsible for granting professional competence certificates to employees/executives of Investment Firms;
- The participation in the Administrative Committee of the Compensation Fund for Investors Customers of CIFs and other Investment Firms;
- The participation in the Advisory Authority which examines issues concerning the prevention of money laundering and terrorist financing.

D. Department for Granting Operating licences and Supervision of UCITS and UCITS Management Companies

The duties of the Department for Granting Operating licences and Supervision of UCITS and UCITS Management Companies mainly include the following:

- The examination of applications for granting a licence to operate a local UCITS Management Company;
- The examination of applications for granting a licence for establishment and operation of a local UCITS;
- The examination of notifications for the marketing in the Republic of foreign units of UCITS domiciled in an EU Member State and which are subject to the European Directive 85/611/EEC (harmonized UCITS);
- The examination of applications for granting a licence to market in the Republic of foreign units of UCITS which are either domiciled in an EU Member State or in a State other than an EU Member State (third country) and which are not subject to the European Directive 85/611/EEC (non-harmonized UCITS);
- The examination of notifications for the establishment and cross-border provision of services in the Republic by foreign UCITS Management Companies domiciled in an EU Member State (harmonized Management Companies);
- The examination of applications for granting a licence for establishment and cross-border provision of services in the Republic by foreign Management Companies domiciled in a third country (non-harmonized Management Companies);
- The monitoring of the compliance of local UCITS Management Companies and local UCITS with their continuous obligations;
- The monitoring of the compliance of foreign harmonized and non-harmonized UCITS which market their units in the Republic and of foreign harmonized and non-harmonized Management Companies with their continuous obligations;
- The submission of suggestions for amendments to the legislation aiming at the improvement of the existing legislative framework;
- The study, preparation and issue of the CySEC Directives, Circulars and Forms pursuant to the Undertaking of Collective Investment in Transferable Securities (UCITS) and Related Issues Laws of 2004 -2008;
- The examination of proposed legislations concerning UCITS and their Management

Companies and the submission of relevant suggestions;

- The examination of proposed legislations concerning UCITS and their Management Companies and the submission of relevant suggestions;
- The participation in the CESR's Investment Management Expert Group;
- Participation in the Advisory Committee of the Cyprus Investment Promotion Agency (CIPA) regarding the Investment Funds.

E. Department for Market Surveillance and Investigations

The duties of the Department for Market Surveillance and Investigations mainly include the following:

- The investigation of potential violations of the Law on Insider Dealing and Market Manipulation (Market Abuse) of 2005 (N.116(I)/2005);
- The investigation of potential violations of the Securities and Cyprus Stock Exchange Laws and Regulations;
- The conduct of investigations on Issuers whose securities are listed on the Cyprus Stock Exchange;
- The conduct of investigations on Investment Firms;
- The investigation of Investors' Complaints;
- The daily monitoring of Stock Exchange meetings through modern electronic real-time monitoring systems;
- The issue of circulars or announcements to Issuers, Investment Firms and the public;
- The monitoring of the application of the provisions of the Corporate Governance Code;
- The participation in ESMA's operational groups on issues relating to the Department's responsibilities.

F. Legal Department

The duties of the Legal Department mainly include the following:

- The monitoring of the legislation on securities market;
- The preparation and submission of suggestions for the amendment of the relevant legislation;
- The preparation and submission of suggestions for the issue of secondary legislation (Directives of the CySEC);
- The maintenance of a register for cases pending before the Court, the monitoring, coordination and cooperation with external legal consultants of the CySEC;
- The keeping of minutes of the meetings of the Board of the CySEC – filing of decisions – board composition register - decision announcements;
- The legal support of the CySEC (correspondence – internal legal opinions - investigations);
- The harmonisation of national Legislation with that of the European Union;
- The communication with Supervisory Authorities abroad – exchange of information and protocols of cooperation;
- The legal support – provision of guidelines to market participants, lawyers, auditors, investors, etc regarding the interpretation and application of the legislation on securities market

G. Department of Administration and Personnel

The duties of the Administration and Personnel Department mainly include the following:

- Personnel Issues
 - Monitoring the observance of Personnel Regulations;
 - Monitoring of personnel training issues;

- Study of the needs in personnel as well as the announcement of new vacancies;
- Keeping of the records of the Provident Fund of the CySEC employees;
- Keeping of the records of the Employees' Welfare Fund of the CySEC;
- Coordination of the Health Care plan of the CySEC employees.
- Financial Issues
 - Preparation of the CySEC budget and the monitoring of its accurate execution;
 - Undertaking and monitoring the collection of fees/fines and the payment of expenses;
 - Preparation of Financial Statements;
 - Conduct of bids for the supply of consumables and equipment to cover the needs of the CySEC.
- Other
 - Provision of secretarial support to the other Departments;
 - Management of correspondence and telephone centre;
 - Care for the correct management and maintenance of the equipment;
 - Maintenance of the offices which house the CySEC;
 - Provision of secretarial support to the Compensation Fund for Customers of Cyprus Investment Firms and other Investment Firms;
 - Participation in the CESR Committee for the Development of a Common Culture amongst the European Supervisory Authorities on security market issues;
 - Health and safety issues at the CySEC.

H. IT and Operations Department

The duties of the IT and Operations Department mainly include the following:

- The creation, implementation, monitoring and improvement of systems which are necessary for both the IT Department and for other Departments;
- The regular update of the CySEC's website;
- The improvement of the way of presentation of the information as derived from electronic or non-electronic forms of the CySEC;
- The management and monitoring, especially as regards safety issues, of the internal network and the various systems of the CySEC;
- The monitoring and coordination of the implementation of the Document Management System as well as the required training of the CySEC personnel;
- The monitoring and coordination of the implementation and continuous development of CESR's IT projects in relation to the CySEC, such as Transaction Reporting (TREM), Regulated Information Central Storage Mechanism (OAM-Officially Appointed Mechanisms);
- The participation in CESR-TECH group which deals with IT issues;
- The creation of the new CySEC Main Archive which will include all the incoming and outgoing documents, their categorization and classification according to the level of confidentiality and the access rights.