



Annual Report

for the year ended on 31 December 2008

Annual Report

for the year ended on 31 December 2008

Cyprus Securities and Exchange Commission

Table of contents

■ Board of the Cyprus Securities and Exchange Commission	05
--	----

■ Chairman's Statement	07
------------------------	----

Section A

Strategic Plan	13
-----------------------	----

General Review of Activities	16
-------------------------------------	----

Cyprus Securities and Exchange Commission	24
--	----

Section B

Reports by Departments

■ Department for Granting Licences, Listing and Continuous Obligations of Issuers	37
---	----

■ Department for Granting Operation Licences and Supervision of Investment Firms and Regulated Markets	47
--	----

■ Department for Granting Operation Licences and Supervision of UCITS and UCITS Management Companies	52
--	----

■ Department for Market Surveillance and Investigations	58
---	----

■ Legal Department	64
--------------------	----

■ Administration and Personnel Department	66
---	----

■ IT and Operations Department	67
--------------------------------	----

■ Investor Education and Training Programme	69
---	----

Section C

Annexes

■ Legislation	73
---------------	----

■ Duties of the individual Departments	74
--	----



Board of the Cyprus Securities and Exchange Commission

Chairman

Georgios Charalambous

Vice-chairman

Akis Hadjipieris

Members

Spyros Kokkinos

Menelaos Kyprianou

Demetris Vakis (until 4.12.2008)

Marios Moiseos (as of 23.2.2009)

Representative of the Governor of the Central Bank of Cyprus

Constantinos Trikoupis (as of 1.6.2008)

Yiangos Demetriou (until 31.5.2008)



Chairman's Statement

In 2008, conditions in the Cyprus capital market were marked by the world financial crisis and the severe recession that affected most of the economically advanced countries. This was a difficult year for the Cyprus Stock Exchange, listed companies, Investment Firms (IFs) and investors.

The major impact of the crisis has been the collapse of share prices at the Cyprus Stock Exchange, which followed the sharp decrease in share prices at the international stock exchanges. However, in contrast to what happened in the USA, Europe and in other countries, Cyprus has not experienced any serious problems in the operation of its financial institutions that could endanger their viability and act as destabilising factors of the financial system. Consequently, the State did not have to take any measures (e.g. recapitalisation or guarantees) in order to support Cyprus financial institutions.

In this unfavourable environment, the Cyprus Securities and Exchange Commission (Commission) had to deal with new and serious challenges. Therefore, we had to examine and revise our action plans and priorities. However, we continued operating within the framework of our major strategic objectives, i.e.:

- the upgrading of the regulatory and supervisory framework in Cyprus;
- the enhanced protection of investors;
- the development of a fair, competitive and efficient securities market;
- to ensure the transparent, efficient and effective operation of the Commission.

In 2008, we promoted a further upgrading of the regulatory framework, mainly with the issue of new CySEC directives and circulars pertaining to the operation of the Cyprus Investment Firms (CIFs). Particular importance has been given to the effective implementation of the new Investment Services and Activities and Regulated Markets Law (which is the transposition of MiFID¹ into national legislation), which entered into force as of 1st November 2007, and of the Capital Requirements Directives. To this end, we organised special training seminars for market participants and inaugurated an electronic communication link

¹ *Markets in Financial Instruments Directive of the EU*

between the supervised entities and the Commission, for submitting questions and resolving any problems arising from the implementation of the new regulatory measures.

A crucial factor for the maintenance of a fair securities market, especially during these hard times, is taking preventive measures for investor protection. Bearing this in mind, in 2008 we created, in cooperation with other Supervisory Authorities in Cyprus, the Advisory Committee for Public Financial Education.

The Advisory Committee decided to promote various measures that could help investors take informed decisions regarding their personal finances.

The deterioration of the securities market conditions led us to the decision to enhance our preventive supervision by implementing a specific programme of targeted inspections of the CIFs. Initially, inspections have been focused on the expected compliance of CIFs with their obligations to implement measures for investor protection (appropriate categorization of investors and protection of their assets).

Enforcing compliance with the existing regulatory framework is a substantial element of our policies, since this can contribute in boosting investor confidence. Therefore, we have continued monitoring both the stock exchange transactions and the activities of the market participants. We have investigated many cases of potential infringements of legislation and in some cases strict penalties have been imposed.

We have cooperated closely and productively with the Supervisory Authorities of other countries and in particular with the Authorities of the other European Union Member States. Special reference should be made to the actions taken, within the framework of the Committee of European Securities Regulators (CESR), in order to address issues and problems arising from the world financial crisis.

Pursuant to our aim to further develop and strengthen the financial relations between Cyprus and other countries, last year we signed a Memorandum of Understanding with the Supervisory Authorities of Dubai and the Russian Federation

2008 was the first year of the operation of the National Financial Stability Committee with the participation of representatives from the Ministry of Finance and the Supervisory Authorities of the financial sector. One of the main subjects addressed by this Committee was the evaluation of the results of stress tests.

In 2008, a delegation of the International Monetary Fund visited Cyprus within the framework of the Financial Sector Assessment Programme (FSAP). The delegation's findings on the securities sector are considered

as satisfactory since no serious weaknesses or problems have been identified.

With a view to upgrading internal governance in the companies listed on the Cyprus Stock Exchange, the Commission has closely collaborated closely with the Board of the Cyprus Stock Exchange for the further improvement and enhancement of the Corporate Governance Code. Taking into consideration the recent experiences from the financial crisis, we have focused on areas such as the maintenance of an appropriate balance in the composition of the Board of Directors with the inclusion of independent and experienced directors, the creation and effective operation of the Board's Committees and transparency in the remuneration of directors and senior officers of listed companies.

Some of the challenges that we have to deal with concern the internal organisation and effective operation of the Commission. Therefore, we have decided to carry out a study in order to improve the organisational structure of the Commission. In the framework of this study we are reviewing the Commission's staffing needs in terms of numbers and expertise with the objective of enhancing the effectiveness of the Commission's supervisory role.

The increasing sophistication of both the financial markets and the relevant regulatory measures make it more difficult for the authorities to effectively monitor and supervise the markets. To address these issues, we are considering various options in order to upgrade the Commission's supervisory capability mainly with the use of up to date systems in information technology. The assessment of options is mostly based on our priorities for the detection and containment of various risks (for the CIFs or the market in general) that may endanger our strategic objectives.

The formulation and implementation of a comprehensive and effective policy by the Commission largely reflects the valuable contribution of the Board to which I would like to express my sincere gratitude. During 2008 Mr. Demetris Vakis resigned from the Board and I would like to thank him for his significant and fruitful cooperation and his substantial contribution to the work of the Commission.

Finally, I would like to express my deep appreciation to the Commission's staff which has effectively responded to the challenges facing us, sometimes by working under difficult circumstances. Their dedication and commitment to the purpose of the Commission has enabled us to look forward to the continuous progress and development of the Cyprus securities sector.

Georgios Charalambous

Chairman Cyprus Securities and Exchange Commission



Section A

Strategic Plan
General Review of Activities
Cyprus Securities and Exchange Commission

Strategic Plan

According to the legislative framework governing the establishment and operation of the Cyprus Securities and Exchange Commission (CySEC), its mission is to ensure and safeguard the integrity and operation of a fair, orderly, efficient and transparent securities market in Cyprus.

Within this framework, the CySEC Board, in July 2007, set out its vision:

«The CySEC, through its fair and effective supervision, should enjoy the respect of the supervised institutions, the other Supervisory Authorities in Cyprus and abroad and the investors».

In order to achieve its vision and meet its legal obligations, the CySEC aims to achieve the following strategic objectives:

- To promote the reform of the regulatory and supervisory framework in order to protect the investors and safeguard the proper functioning of the securities market;
- To ensure investors are well informed and protected and at the same time to upgrade the investor education system;
- To develop a regulatory framework that promotes competition, innovation, effectiveness and efficiency and attracts financially healthy and transparent financial institutions;
- To contribute to the further enhancement of the reputation and the credibility of Cyprus as a successful regional financial centre;
- 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;
- To ensure that the CySEC continues to operate with transparency, consistency, efficiency and effectiveness

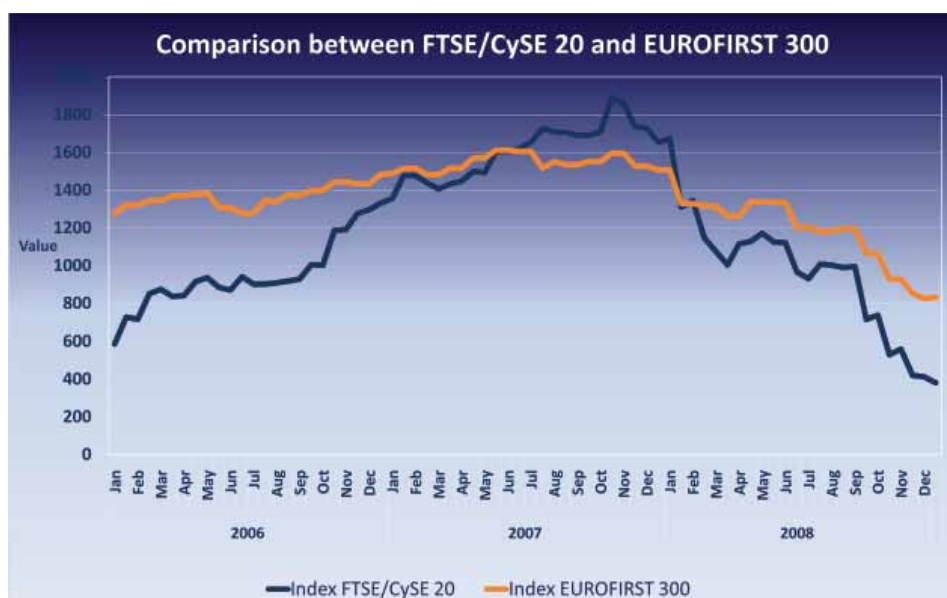
Strategic Plan

Sector	Strategic objectives	Goals
Regulatory Framework	<ul style="list-style-type: none"> To promote the reform of the regulatory and supervisory framework in order to protect the investors and safeguard the proper operation of the securities market. 	<ul style="list-style-type: none"> To promote the reform and modernisation of legislative, regulatory and supervisory framework of Cyprus in the first half of 2008 in order to fully meet the European standards and the needs of the Cyprus securities market; To ensure convergence in the implementation of European Directives and close cooperation with other European Supervisory Authorities.
Investor Protection	<ul style="list-style-type: none"> To ensure investors are properly informed and protected. To upgrade the investor education system. 	<ul style="list-style-type: none"> To set out high investor information standards; To set out high standards in relation to the obligations of financial institutions when transacting with the public; To ensure compliance with the new high standards of information by introducing and imposing dissuasive penalties; To formulate and implement well targeted education programmes for investors re: <ul style="list-style-type: none"> The securities market; Financial products; Investor rights emanating from their investments and the investment services available to them.
Competitive and Efficient Market	<ul style="list-style-type: none"> To develop the regulatory framework that promotes competition, innovation, effectiveness and efficiency and attracts financially healthy and transparent financial institutions. 	<ul style="list-style-type: none"> To maintain the correct balance between regulation, supervision and enforcement aspects and also between the encouragement of healthy competition, development of initiatives and innovation in the securities market; To closely cooperate with the Supervisory and other Authorities, as well as other market participants.

Sector	Strategic objectives	Goals
	<ul style="list-style-type: none"> To contribute to the further enhancement of the reputation and the credibility of Cyprus as a successful regional, financial centre. 	
Organisation and operation of financial institutions	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> To define capital adequacy levels and standards of organisation, staffing and management for financial institutions in order to ensure their stable and healthy operation and development; To provide assistance to the supervised financial institutions in order to ensure their smooth transition to the new regulatory framework.
Organisation and operation of the CySEC	<ul style="list-style-type: none"> To maintain and further enhance transparency, consistency, efficiency and effectiveness in the operation of the CySEC. 	<ul style="list-style-type: none"> To upgrade its internal organisation, systems and recruitment in order to be able to deal with the continuing developments of the financial market in a timely, flexible, effective and efficient manner; To incorporate impact assessment analysis in the CySEC decision making process concerning the introduction of new regulatory measures and changes in supervision; To enhance the transparency in the operations and decisions of the CySEC; To upgrade the cooperation and consultation procedures with supervised institutions, market participants and investors; To formulate and implement a comprehensive communications policy; To upgrade the process of evaluation of the CySEC's performance and achievement of its stated objectives by the State and the investors.

General Review of Activities

With the global financial crisis reaching its peak, 2008 was an exceptionally difficult year for the financial markets, the business sector and, particularly, the investors. For the CySEC as well, as for the majority of the Supervisory Authorities of the financial sectors in the European Union and the rest of the world, this has been a year full of challenges. These primarily involved the need to keep the impacts of the financial crisis within manageable limits, to assist the financial as well as the business sectors to overcome the effects of the crisis and to help the investors understand the situation in order for them to take the appropriate decisions in protecting their interests. To date, the negative impacts of the international financial crisis on the profitability of the financial institutions in Cyprus have rather been limited. This has been mainly due to financial institutions' relatively limited investments in structural and other toxic products. By contrast, the repercussions on the Cyprus Stock Exchange were particularly pronounced with the FTSE/CySE20 index dropping by about 35%, from 585.81 on 2nd January 2006 to 379.80 on 31st December 2008. In the last 3 years, FTSE/CySE20 index showed almost the same trend with the EURO FIRST 300 index, albeit exhibiting greater volatility. The trading volume of the Cyprus Stock Exchange decreased sharply in 2008, mainly due to diminished investor confidence as a result of the financial crisis.





Objectives and Challenges

In this context, the evaluation of the achievement of the objectives set by the CySEC Board in July 2007, involves the following four major areas

- The upgrading of the regulatory and supervisory framework in order to meet the European standards and the needs of the Cyprus securities market;
- The continuous reinforcement of means for investor protection;
- The development of a more competitive and efficient securities market that ensures the operation of healthy financial institutions; and
- The transparent, consistent, efficient and effective operation of the CySEC.

Upgrading of the regulatory and supervisory framework

The accession of Cyprus to the European Union and the harmonization of the national legislation with the Acquis Communautaire have significantly helped in the modernisation and upgrading of the regulatory and supervisory framework of Cyprus in a relatively very short period of time. The transposition into Cyprus Legislation of the European Union Directives, which constituted the core of the Five-year European Union "Financial Services Action Plan", has led to the regulatory and supervisory framework of Cyprus regarding transferable securities, which is comparable to that of more financially advanced countries. Having accomplished this, Cyprus is now at the stage of acquiring experience and know-how from other Supervisory Authorities. To this

end, it cooperates closely with the Supervisory Authorities of the other EU Member States which are also members of CESR

Moreover, the CySEC, in the context of its responsibility for the protection and promotion of the investors' interests, it ensures the continuous improvement of the laws and regulations and the evaluation of the effectiveness of their implementation and supervision. Nine Regulatory Directives and more than twenty circulars were issued in 2008 in order to improve the quality and effectiveness of the implementation of legislation.

It is worth mentioning that the financial crisis has shown that at European level there exist other sectors that also need to be regulated. Examples include the need to reform the capital requirements for credit institutions (banks and cooperative credit institutions) and investment firms, the need to supervise the credit rating agencies and the markets for derivatives and structured products, as well as the need to strengthen the Supervisory Authorities by equipping them with the power to impose more strict sanctions.

Notwithstanding the need to do further work in the areas highlighted by the financial crisis, we believe that our objective to upgrade the regulatory and supervisory framework in Cyprus, has been achieved to a great extent. Currently, both in Cyprus and the European Union, emphasis is given to the effective practical implementation of the new regulatory measures, by means of improving the supervisory systems and achieving convergence in the implementation of EU legislation in EU Member States. This aims at overcoming potential obstacles in the operation of the Single European Market in Financial Services.

Continuous reinforcement of the means for the protection of investors

Through the transposition of the EU Directives into National Law, we have set high standards both regarding investor information and the obligations of financial institutions when transacting with investors.

The compliance of both the issuers of transferable securities traded on the Cyprus Stock Exchange and of the Investment Firms with the legal requirements, is safeguarded to a great extent by introducing and enforcing dissuasive sanctions.

As it is internationally recognised, a competitive, effective, efficient and fully supervised securities market does not in itself alone provide for adequate investor protection. The other necessary ingredients to achieving high level of investor protection are, good financial background of investors, as well as improvement of their ability to correctly interpret market signals. Consequently, in response to these and to the current challenges, the CySEC, has placed investor education on financial matters, high on its agenda. Also included in investor education is

the development of a prudent investor culture, better knowledge of the investors' rights, but also a better relationship between investors and Supervisory Authorities. To achieve the aforesaid, the CySEC has played a leading role for the setting up of an Advisory Committee comprising representatives from all Supervisory Authorities of the financial sector, the consumers' organization and other bodies, with a mandate to prepare and submit proposals for investor education and training programmes. The primary aim is for investors to be able to take well-informed decisions regarding their personal finances. It is worth mentioning that various options are being considered with the priority being to commence financial education of investors from a very early age through the introduction of financial awareness in the school curriculum.

**Development
of a more
competitive
and efficient
securities market**

The development of a more competitive and efficient securities market in Cyprus, which ensures the healthy operation of financial institutions, has also been achieved to a great extent through the adoption of the European Union Legislation. Furthermore, the passporting of services, that is, the opportunity given to financial institutions licensed by one EU Member State to provide their services in other EU Member States through simple notification procedures and without further licensing, paved the way for the operation of a free market. While this promotes healthy competition in the market, at the same time it creates the need for vigilant monitoring and supervision of the capital markets and close cooperation between the Supervisory Authorities. The need for close cooperation between the Supervisory Authorities is considered of utmost importance now especially after the outbreak of the international financial crisis.

The increasing number of investment firms under the supervision of the CySEC, which from eighteen at the end of 2003 increased to sixty-nine at the end of 2008, and the addition of new areas of responsibility for the CySEC, such as licensing and supervision of regulated markets (Cyprus Stock Exchange) were not accompanied by a respective increase of the CySEC personnel, and as a result, the Department of Granting Licences and Supervising the Investment Firms and Regulated Markets was put under great pressure.



According to the information available, the rate of increase of licences granted is expected to increase in 2009. In indicative terms, so far three new Cyprus Investment Firm (CIF) licences have been issued and sixteen applications for licences are under consideration or are awaiting the final approval by the CySEC Board.

In response to the challenges emanating from the rapid development of the market, the CySEC introduced a number of measures to ensure the smooth operation of the CIFs. These measures included organising training seminars for CIFs regarding the effective implementation of the new legislation that governs their operations, setting up an electronic communication line to address any questions that may arise and strengthening the supervision of capital adequacy levels and the standards of internal organisation, staffing and management of the CIFs.

Additionally, the CySEC through a programme of targeted (onsite and remote) inspections of the CIFs assessed and in some cases enforced the correct implementation of the measures for investor protection (e.g. appropriate categorisation of investors and adequate protection of their assets). Some of the CIFs were given a deadline for compliance, while others were sent a letter drawing their attention to their new obligations provided by the Law. Administrative fines were imposed in fourteen cases for non-compliance.

Another important sector regulated by the CySEC is that of the listed companies. The CySEC pays particular attention to the implementation of the Corporate Governance Code by the listed companies. Thus, it participates in various fora and endeavours to promote the upgrading

of the Code and in particular the implementation of three provisions, namely those for the maintenance of an appropriate balance in the composition of the Board of Directors, the creation and effective operation of the Board's committees and the levels of transparency regarding the remuneration of directors and senior officers of listed companies.

The CySEC has also intensified the inspections as to the compliance of the listed companies, both as to their legal obligation to disclose all substantial information, in particular their Annual and Interim Financial Statements, Indicative Results and Interim Management Report, and to the compliance of their Annual Financial Statements with the International Financial Reporting Standards. Following these inspections, letters were sent to a number of listed companies drawing their attention to the provisions of the legislation, a number of listed companies were summoned to make representations for potential infringements of the provisions of the legislation and one listed company was requested to publish a corrective public declaration/ announcement. With regard to the financial statements included in prospectuses, where appropriate, listed companies were requested to make appropriate corrections or provide additional information.

Close monitoring of the compliance of foreign Undertakings for Collective Investment in Transferable Securities (UCITS) and their representatives in Cyprus with their legal obligations to provide investors and the CySEC with adequate information continued throughout the year. Provision of misleading information to the CySEC constitutes a criminal offence. Therefore, the CySEC, having established the potential commitment of such an offence in one particular case, has referred the case to the Attorney General.

Regarding the compliance with the provisions of the Insider Dealing and Market Abuse Law, a total of twenty cases were investigated, in eleven of which administrative fines were imposed and in another two a letter of reprimand was sent.

Upgrading of the internal organisation and operation of the CySEC

The CySEC gives great importance to the continuous upgrading of its internal organisation and systems, as well as to its adequate staffing, in order to be able to deal in a timely fashion, effectively and efficiently with its increasing responsibilities, as well as to adapt quickly to the continuing developments in the financial market.

To this end, the Board has decided that a study should be undertaken for the improvement of both the internal organisational structure of the CySEC and the remuneration system of its staff. The aim is for the CySEC to be able to compete on the equal terms with other organisations

and to attract and maintain high calibre employees with the necessary competence, experience and know-how. At the same time, the CySEC promotes the upgrading of the training programme of its staff, with emphasis on enhancing specialisation, primarily through the regular participation in CESR working and expert groups.

In the framework of improving the internal organisation of its operations, the CySEC is at the final stages of establishing and implementing a comprehensive crisis management action plan.

Recognising the need for a robust infrastructure in pursuing its objectives, the CySEC, is at the final stages of completion of a comprehensive Document Management System which will form the core of the CySEC operations system.

The aim to enhance the levels of transparency in the operation and decisions of the CySEC is considered to have been achieved to a great extent. Within the framework of a comprehensive Communication Policy recently adopted by the Board, which concerns both internal and external communications, it has been decided to publicly announce all administrative measures taken by the Board regardless of type or amount of fine.

The CySEC also promotes the improvement of the process of consultation and cooperation with the supervised entities. This includes the establishment of regular contacts and the implementation of an adequate communication policy with all entities involved, with the aim to encourage initiatives and innovations which will contribute to the smooth and fair operation of the market. In the framework of this policy, in 2008, the CySEC published sixteen Consultation Papers.

The frequent and close cooperation between the CySEC and the other supervisory authorities in Cyprus and abroad plays an important role in the accomplishment of the work of the CySEC. Communication with the other supervisory authorities of the financial sector in Cyprus is conducted on a bilateral and multilateral level within the framework of the High Level Committee which meets at least three times per year. Cooperation with the supervisory authorities abroad also takes place either on a bilateral level by signing Memoranda of Understanding (in 2008, the CySEC signed Memoranda of Understanding with Dubai Financial Services Authority – Dubai FSA and the Financial Authority of the Russian Federation – FFMS) or on a multilateral level within the framework of CESR or IOSCO².

² *International Organization of Securities Commissions*

In 2008, in line with the cooperation among the supervisory authorities of the EU Member States, under the CESR umbrella, and in compliance with article 25 of Directive 2004/39/EC known as the *MiFID*, the system for mutual information exchange between them, known as the *Transaction Reporting Exchange Mechanism* (TREM), has been further developed. The aim of this project is to reinforce the integrity of the market by ensuring that investment firms act in an honest, fair and professional way. This project, which has been justly characterised as gigantic, has been implemented, from a technological point of view, with absolute success. However, due to the diversity, characteristic of the national markets and systems of the EU Member States, as well as certain divergences in the interpretation and implementation at a national level, additional effort is required to make the TREM reports more comprehensible and easier to use by recipients.

In Autumn 2008, the International Monetary Fund, as part of its scheduled assessment of the financial sector of Cyprus (Financial Sector Assessment Programme 2008), assessed the CySEC. The aim of this assessment was to evaluate the extent to which the CySEC has implemented the Core Principles of Securities Regulation of the International Organization of Securities Commissions (IOSCO). The findings presented in the final report published on 1st June 2009³ regarding the CySEC were very positive. The CySEC was found to fully implement 25 out of the 30 Core Principles, while it also broadly implements another 3 and partially implements the remaining 2 Principles. The CySEC's implementation status will further improve with the pending adoption of the new CySEC Law by the House of Representatives.

2009 is expected to be a difficult year for all the world economy and, thus the CySEC is called upon to play an important role acting in a preventive as well as corrective manner in order to support and maintain a healthy securities market in Cyprus. Despite increasing responsibilities entrusted to the CySEC, we are hopeful that, through proper organization and correct planning it will successfully deal with the challenges ahead.

³ <http://www.imf.org/external/pubs/cat/longres.cfm?sk=22990.0>

Cyprus Securities and Exchange Commission

A securities market in order to operate smoothly, effectively and efficiently and at the same time to safeguard, inter alia, adequate protection of investors, needs to have a robust legislative framework. This legislative framework governs the operation and conduct of both the securities market as such, as well as those who have a stake in it, for instance the issuers of securities (public companies), the investment firms, the mutual fund management companies and of course the investors. The supervision of the compliance with the rules and the regulatory framework in general is assigned to a Supervisory Authority which is entrusted with the responsibilities to monitor the market and take both preventive and dissuasive measures for the achievement of the legislative aims and objectives.

Historical background 1996 - 2000

The CySEC was initially established in 1996 by Article 8 of the Securities and the Cyprus Stock Exchange Laws and had been characterised by the Law Office of the Republic as an "Administrative Collective Supervisory Body". It was a five-member Commission composed of the Government Commissioner, the Central Bank Representative and three other members. None of these members was working at the CySEC on a full time basis.

Until the end of 1999, the CySEC remained understaffed employing only four persons (three officers and one secretarial officer). Today, the CySEC staff comprises forty-two employees (Chairman, Vice-chairman, five senior officers, twenty four officers and ten assistant secretarial officers).

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]. This was a stock exchange-oriented legislation with most of supervisory competences, including the power to impose penalties, being granted to the Cyprus Stock Exchange. It should be noted that, according to the legislation, the consent of the CySEC was required before any penalties could be imposed. The power of the CySEC to unilaterally decide and impose penalties was extremely limited. Notwithstanding this, the CySEC possessed the power to enter and conduct searches, which power was not granted to the Cyprus Stock Exchange. This diarchy in competences and powers resulted in the following problematic situation: if the CySEC were to find an entity or individual in breach, being unable to proceed further on its own competence, it had to report it to the Board of the Cyprus Stock Exchange in order for it to decide if there was a breach and what if any penalties would be imposed. In case the Board of the Cyprus Stock

Exchange would not agree with the findings or the conclusions of the CySEC, the latter's hands were tied.

Unfortunately we had to go through the traumatic events of the 1999/2000 stock exchange bubble to finally understand and appreciate that even small markets like that of Cyprus need a proper and comprehensive institutional framework and, equally important, a competent Supervisory Authority with the necessary powers to efficiently and effectively discharge its duties and responsibilities.

2001 - today

The new CySEC was established pursuant to the provisions of the Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Law on 20 April 2001, 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 was assigned the responsibility to supervise the securities market, to ensure its smooth operation and methodical development, as well as to monitor the transactions in transferable securities carried out in the Republic. Article 26 of the Cyprus Securities and Exchange Commission Law and the laws which were subsequently adopted clearly define all the powers and responsibilities granted to the CySEC. These briefly include the licensing of CIFs, Organised Markets, UCITS and UCIT Management Companies, the supervision and monitoring of compliance of these institutions with their legal obligations and the approval of Prospectuses, Public Offer Documents and Public Takeover Bid Documents. They also include the prevention and repression of transactions of persons that possess confidential information, as well as of market abuse.

The CySEC is an independent public supervisory authority and is one of the five⁴ Authorities supervising the financial sector in Cyprus.

The CySEC is managed by a five-member Board which is composed of the Chairman and the Vice-Chairman, who are employed on a full time and exclusive basis, and of three other members. A representative of the Governor of the Central Bank is present at the Board meetings and has the right to register issues for discussion on the agenda, to participate in the discussions and to express opinion but has no voting right.

⁴ The five authorities are: the Central Bank of Cyprus, the CySEC, the Insurance Companies Control Service, the Authority for the Supervision and Development of Cooperative Societies and the Authority for the Supervision of Professional Pension Funds.

The members of Board are appointed by the Council of Ministers following the suggestion of the Minister of Finance. They serve five-year terms with the exception of the Vice-Chairman and two of the other members who were appointed when the law first came into force, who served four-year and three-year terms respectively so as to ensure the continuity in the management of the Commission. The service for all the members is renewable for one additional five-year term.

Contrary to the recent past, the CySEC now possesses the necessary tools (both dissuasive and repressive) to ensure the compliance of the supervised entities with the regulatory framework. When a violation is ascertained, the CySEC has the power to impose sanctions. The Legislator, having recognised the gravity of some types of violations, has provided for the power to impose very high administrative and criminal sanctions. The legislation provides for administrative fines of up to approximately €850 thousand (or double the amount of the gain made by the offender). The amount of the penalty, i.e. €850 thousand, is doubled in case of a repeat offence. Criminal sanctions provide for imprisonment of up to 10 years or/and penalty of up to €170 thousand. Indeed the powers of the CySEC have been enhanced, especially when compared to the regime of its early years when penalties did not exceed a few thousand pounds and a maximum of 7 years of imprisonment.

Moreover, today the CySEC is much better staffed and equipped in order to successfully discharge its duties and responsibilities and uses cutting edge technology to monitor and supervise in real time the transactions carried out on the Cyprus Stock Exchange.

European Dimension

At this point, reference should be made to the European Dimension and the European framework in which the CySEC operates.

The five-year «*Financial Services Action Plan*» was adopted in 2000 in Lisbon and provided for the complete modernisation of the regulatory and supervisory framework for transferable securities in the European Union, through the *Commitology process*. This provided, inter alia, for the issue of new or the amendment of the then existing European Directives mainly in the areas of Market Abuse, Prospectuses, Markets in Financial Instruments and Transparency.

In February 2001, the *Committee of Wise Men* chaired by **Baron Alexandre Lamfalussy**, having outlined in its report several shortcomings in the legislative system on transferable securities in the EU, put forward their recommendations for the Regulatory Reform of Financial Services Sector in the EU. As a result of these recommendations the **four-level approach** was implemented and the **European Securities Committee (ESC)** which primarily has a regulatory function and the **Committee**

of European Securities Regulators (CESR) which has an advisory function and promotes the harmonised implementation of the Directives by the Member States, were established. Cyprus is represented in the European Securities Committee by the Ministry of Finance and in CESR by the CySEC.

The four-level approach may be briefly described as follows:

- **Level 1** concerns the Directives and Regulations of the European Council and the Parliament which set out the framework and objectives to be achieved by legislation without much detail;
- **Level 2** concerns the Directives and Regulations of the European Council and the Parliament which elaborate on the objectives set out in Level 1 with the necessary technical details or clarifications. These are drafted following advice on a technical expert level by CESR;
- **Level 3.** Despite the fact that all Member States are obliged to transpose into their National Law the European Directives (European Regulations are automatically transposed), there are matters, mainly of practical application, which should be dealt with by the Member States in a harmonized way. This is considered necessary for the completion of the Single Market. On Level 3, CESR issues guidelines or recommendations, monitors compliance and encourages its members to a consistent and harmonized implementation of the European Legislation;
- **Level 4** concerns the enforcement, by the European Commission, of the compliance of the Member States with the Acquis Communautaire. In case a Member State does not transpose a European Directive into its National Legislation within a predefined deadline, the European Commission takes the necessary measures to enforce compliance and in case of non-compliance it refers the said Member State to the Court of Justice of the European Communities.

Lamfalussy Approach



Within the above system, clearly it is not enough for the Member States to satisfy the European Commission regarding their obligation for correct transposition of the European Directives into the National Legislation; the Supervisory Authorities such as the CySEC, should satisfy CESR (which is accountable and reports regularly to the European institutions), as well as the Supervisory Authorities of the other Member States, as to the proper interpretation and effective implementation of the European Directives. This is of particular importance in terms of the efficient use of powers to ensure and, when necessary, to enforce compliance. The latter is extremely important, particularly now that the legislative work has almost been completed. In a single market in which the use of "passport" is permitted for the free movement of products as well as services from one Member State to another, consistent implementation and, where necessary, enforcement of

European legislation is crucial. Otherwise, there is a great danger of what is referred to as "**Regulatory Arbitrage**" to occur where the State imposing fewer requirements or most favourable approach or lower penalties is selected by the institutions to be their home state. Therefore, in such a single market, the inconsistent interpretation and inefficient implementation of European Directives contains great risks.

The framework explained above is expected to be significantly affected by the findings and recommendations of the **De Larosi re** group which in 2008 was assigned with the study of restructuring of the Legislative and Supervisory framework in the EU regarding the operation of financial institutions and capital markets. Very briefly the mandate of the **De Larosi re** group covered the following areas:

- how to organise the supervision of financial institutions and capital markets in the EU;
- how to strengthen European cooperation on financial stability oversight, early warning and crisis management mechanisms;
- how EU supervisors should cooperate globally;
- to perform analysis and submit recommendations on the regulation of financial markets.

The **De Larosi re**⁵ report analysed the causes of the recent financial crisis, set out the Group's views on the priority areas that need regulatory change, and pointed out, inter alia, the need for stronger macroeconomic policy, the reform of the capital requirements for credit institutions and investment firms, the supervision of credit rating agencies and derivatives and structured products markets, as well as the strengthening of Supervisory Authorities as to the imposition of stricter sanctions. In addition, the Report proposes a new supervisory structure for the EU which separates the macroeconomic from the microeconomic element and upgrades the 3L3 Committees into EU Authorities with considerably expanded competences.

Legal Framework

According to the Cyprus Law, the general oversight of the securities market and of the transactions in transferable securities carried out in the Republic is assigned to the CySEC.

The CySEC is also responsible to safeguard the smooth operation and methodical development of the securities market and to monitor the transactions in transferable securities carried out in the Republic. The scope of the supervision extends outside the Republic with

⁵ ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf

regard to transactions carried out by investment firms that are under the supervision of the CySEC. The CySEC exercises the powers and competences assigned to it by the legislation, including preparing analyses, formulating suggestions for measures to be taken by other competent authorities and taking measures to safeguard the integrity of the financial transactions and generally to safeguard the effectiveness and the fair operation of the market.

The main activities of the CySEC are set out in Article 26 of the Law as amended and may be summarised as follows:

- Grants operating licences to CIFs, Regulated Markets, UCITS and UCIT Management Companies, suspends and revokes such licences;
- Supervises and oversees the operation of the Cyprus Stock Exchange and the transactions carried out therein;
- Supervises and oversees listed companies, CIFs, UCITS and UCITS Management Companies;
- Carries out inspections of listed companies, CIFs, UCITS and UCITS Management Companies;
- Carries out investigations which are necessary to the exercise of its competences;
- Requests and collects information necessary for the exercise of its competences and demands the provision of information in writing from any natural person, legal entity or body which is considered able to provide such information;
- Imposes administrative and disciplinary sanctions provided for by the Law;
- Issues regulatory Directives and Decisions.

In addition, under the recently adopted legislations, the CySEC has been assigned with the exercise of powers and competences provided for by 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.

Internal Organisation

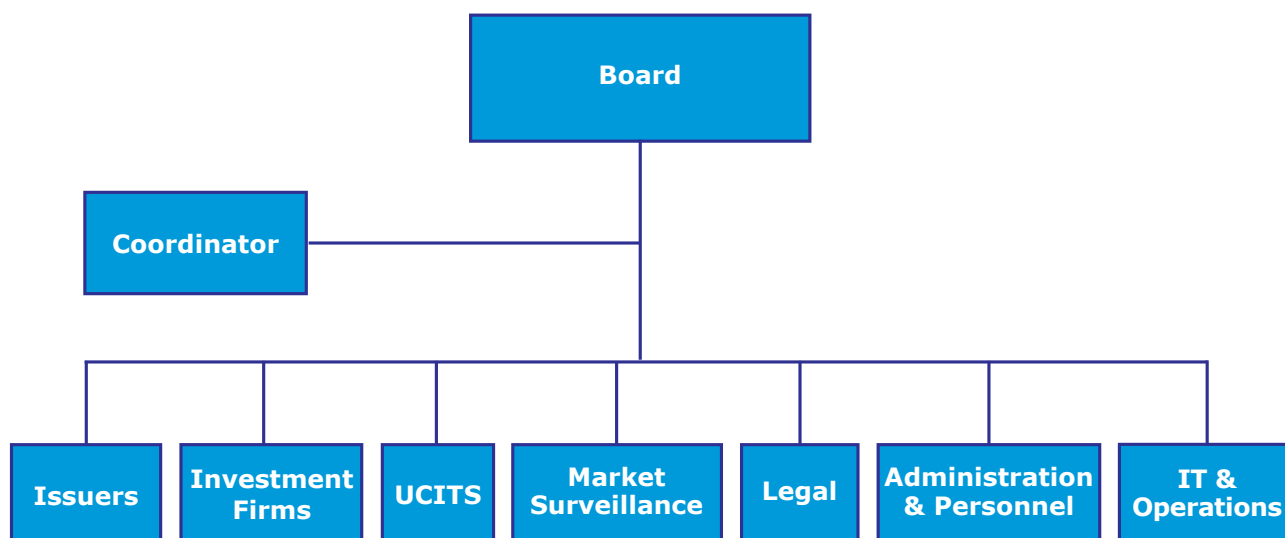
The Legal Acts pursuant to which the CySEC derives its responsibilities and powers are listed in Annex 1.

At the end of 2008, the CySEC employed a total of forty-two persons (39 in 2007), namely the Executive Chairman and the Executive Vice-chairman, five senior officers (5 in 2007), twenty-four officers (25 in 2007) and eleven assistant secretarial officers (7 in 2007).

The operations of the CySEC are divided into the following seven departments:

- A.** Department for Granting Licences, Listing and Continuous Obligations of Issuers;
- B.** Department for Granting Operation Licences and Supervision of Investment Firms and Regulated Markets;
- C.** Department for Granting Operation Licences and Supervision of UCITS and UCITS Management Companies;
- D.** Department for Market Surveillance and Investigations;
- E.** Legal Department;
- F.** Administration and Personnel Department;
- G.** IT and Operations Department.

Organisational Structure



Department	2008			2007		
	Senior Officers	Officers	Assistant Secretarial Officers	Senior Officers	Officers	Assistant Secretarial Officers
Coordinator	1	1		1	1	
Issuers	1	6	1	1	5	1
Investment Firms	1	8	3 ⁶	1	8	1
UCITS		2			2	
Market Surveillance	1	3	2	1	4	2
Legal	1	2 ⁷		1	3	
Administration and Personnel		1	4		1	3
IT & Operations ⁸		1	1		1	
	5	24	11	5	25	7

⁶ In 2008, the IFs Department employed one temporary assistant secretarial officer

⁷ The Legal Department also employed one officer under a fixed-term contract (1 in 2007)

⁸ In 2008 the IT & Operations Department also employed one officer under a fixed-term contract.

Activities of the CySEC

The CySEC has the following activities:

- the monitoring of the compliance of issuers (listed companies) with their continuous obligations in general and in particular with those connected to financial reporting, corporate governance, timely and complete disclosure of material information etc.;
- the approval of prospectuses for public offers of securities or their admission to trading on a regulated market;
- the supervision of public takeover bids;
- the granting of operating licences to CIFs and to Investment Firms from third countries for the establishment of a branch in the Republic and the monitoring of their compliance with the provisions of the law governing their operation;
- the granting of operating licences to regulated markets and the monitoring of their compliance with the provisions of the law governing their operation;
- the exercise of its competences emanating from law for the prevention of legalisation of proceeds from illegal acts or activities;
- the granting of operating licences to UCITS, to UCITS Management Companies or to Management Companies from third countries and the monitoring of their compliance with the provisions of the law governing their operation;
- the examinations of notifications for the provision of cross-border services and the establishment of a branch by a Management Company of an EU Member State in the Republic;
- the examination of notifications and applications for the marketing through Distributors in the Republic of units of foreign UCITS and the monitoring as well as the implementation of the Open-Ended Undertaking for Collective Investment in Transferable Securities (UCITS) and related Matters Law;
- the investigation of cases regarding, inter alia, CIFs or companies listed on the Stock Exchange or a regulated market;
- the monitoring of the stock exchange market and transactions;
- the supervision and implementation of the Insider Dealing and Market Manipulation (Market Abuse) Law;
- the reviewing or/and drafting of legislation relevant to the securities market, as well as the carrying out studies for the preparation and submission of bills;

- the study, preparation and issuances of Directives pursuant to the provisions of the CySEC law as well as the other laws regulating the securities market;
- administrative matters regarding the operation of the CySEC;
- the performance of studies on matters concerning the CySEC and the securities market in general;
- investor education;
- the participation in committees and technical committees on a national and European Union level which fall within the competences of the CySEC.

An overview of the duties of the individual departments is presented in Annex 2.



Section B

Reports by Departments

Department for Granting Licences, Listing and Continuous Obligations of Issuers

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 Department for Granting Licences, Listing and Continuous Obligations of Issuers, within the framework of the Strategic Plan adopted by the CySEC Board in 2007, has the following objectives:

- To promote the reform of the legislative, regulatory and supervisory framework that governs Issuers through its contribution to the issue of Directives by the CySEC, detect the legislative points that need to be amended and consider 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 CESR.

Pursuant to the Public Offer and Prospectus Law of 2005 – L.114(I)/2005, the CySEC is the competent Supervisory Authority for the approval of Prospectuses for public offers or listing of securities on a regulated market where Cyprus is the Member State of origin of the Issuer. Pursuant to this Law the CySEC approves the Prospectus provided that its content complies with the provisions of the Law and the Regulatory Acts issued by virtue of that Law.

It is noted that in accordance with the legislative framework in force (the Cyprus Stock Exchange (Amending) Law) it is the Cyprus Stock Exchange Board's responsibility to ensure that the issuer complies with the basic conditions for listing on the Cyprus Stock Exchange (CSE).

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

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

In 2008 the CySEC received twelve applications (15 in 2007) for approval of Prospectuses for public offer or/and listing of transferable securities in a regulated market pursuant to the Public Offer and Prospectus Law. The CySEC has examined these applications, as well as six pending applications which were submitted in 2007. The CySEC approved fourteen of them (13 in 2007) and rejected two (none in 2007) since the Issuers had not complied with the

conditions set out by the CySEC. The examination of the other two applications submitted in 2008 was completed in 2009.

In 2008 the CySEC received eleven applications (10 in 2007) for approval of a Supplementary Prospectus pursuant to the aforesaid Law. The CySEC examined these applications and approved them all.

Two of the above approved Prospectuses and the respective Supplementary Prospectuses (2 Supplementary Prospectuses in 2007) were communicated, upon request of the Issuers, to the competent Supervisory Authorities of two host EU Member States, where a public offer of the same transferable securities and/or listing on a regulated market would also have taken place.

1.2 Monitoring of the compliance with the Public Offer and Prospectus Law

Within the framework of the Public Offer and Prospectus Law of 2005, officers of the Department monitor on a constant basis the announcements of Issuers regarding the issue/offer of transferable securities or the listing of transferable securities in a regulated market. The purpose of this is to ensure their compliance with the 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 publications of approved Prospectuses by the competent Supervisory Authorities of other EU Member States. These mainly concerns Public Offers made in the Republic of Cyprus of transferable securities issued by Issuers whose Home Member State is other than Cyprus. All the above announcements are listed on the website of the CySEC.

In those 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, they were referred to the Department of Market Surveillance and Investigations for further investigation.

In 2008, the CySEC investigated a case of potential violation of the Public Offer and Prospectus Law concerning the content of a Prospectus. This case was also investigated pursuant to the Insider Dealing and Market Manipulation (Market Abuse) Law, as non-inclusion of substantial information in a prospectus could potentially constitute a violation of the provisions of this law also. The CySEC decided to impose fines to the company, to its Board of

Directors and to the underwriter/person in charge of preparing the Prospectus.

1.3 Documents equivalent to a Prospectus

In two cases (5 in 2007) the CySEC examined, upon application by the Issuers, the information contained in two documents, one document of a Public Takeover Bid and one document prepared in the process of a merger, regarding the securities offered as compensation, in order to establish whether the information contained in these documents could be considered equivalent to information required to be included in a Prospectus. In both cases (5 in 2007) the CySEC considered this information equivalent to a Prospectus and granted the relevant exemption in accordance with the Law.

1.4 Transfer of competence for the approval of a Prospectus

During 2008, the CySEC received applications from five Issuers (7 in 2007) whose home Member State, according to the Law, was 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 in accordance with Article 26(8) of the Law to transfer the competence for the approval of these five (6 in 2007) Prospectuses to the Supervisory Authority of another EU Member State, on the condition that each competent Authority concerned had given its consent to the transfer.

In 2008, the CySEC has also given its consent to the competent Supervisory Authority of another EU Member State for the transfer of the competence of approval of a Prospectus from the said Supervisory Authority to the CySEC.

2. Public Takeover Bids for the acquisition of companies the securities of which are listed on regulated markets

On 5th April 2007 the Public Takeover Bids Law of 2007 entered into force to regulate public takeover bids for the acquisition of securities of companies and related matters. The Law transposed Directive 2004/25/EC of the European Parliament and of the Council on Takeover Bids. It is noted that until 5th April 2007, public takeover bids for the acquisition of companies the securities of which were listed on the Cyprus Stock Exchange were governed by the Securities and the Cyprus Stock Exchange (Public Bid for the Acquisition or Purchase of Securities and Merger of Companies Listed on the Cyprus Stock Exchange) Regulations 1997-2006.

According to the new Law, the CySEC is the competent authority for

the supervision of public takeover bids, in the cases where the target company's registered office is in the Republic and its securities are traded on a regulated market in the Republic. Moreover, in case the public takeover bid refers to a company the securities of which are not admitted to trading on a regulated market in the EU Member State where the company has its registered office, the CySEC is also competent for the supervision of the public takeover bid, under certain conditions provided for by the Law.

2.1 Public Takeover Bid Documents

The aim of the examination of these documents is to examine compliance with the general principles governing public takeover bids and the conditions set out by the Public Takeover Bids Law of 2007, as well as to supervise the completeness of information dissemination under the said Law and the CySEC Directive TB3/2007 regarding content of the Public Takeover Bid document.

In 2008, the CySEC received ten Public Takeover Bid Documents (14 in the period from 5.4.2007 to 31.12.2007) following the relevant announcement by the Offerors, for voluntary or mandatory offers for the acquisition of 100% of the shares of companies listed on the Cyprus Stock Exchange.

The CySEC examined the above documents, as well as a document submitted in 2007 and approved nine of them in 2008 and one in January 2009. The CySEC prohibited the publication of one Public Takeover Bid Document because the CySEC established that it did not meet the requirements of the Public Takeover Bids Law of 2007.

It is noted that during the period from 1st January 2007 till 5th April 2007, the CySEC had also examined, under the Acquisitions and Mergers Regulations – RAA 100/97 in force during that period, seven Offer Documents for the acquisition of companies listed on the Cyprus Stock Exchange, as well as five Revised Public Takeover Bid Documents and submitted its suggestions to the CSE Board.

2.2 Exemptions from the obligation for a Public Takeover Bid

In 2008, the CySEC received thirty-five (27 in 2007) applications for exemption from the obligation of making a mandatory Public Takeover Bid. The CySEC examined those applications, as well as seven applications submitted in 2007, and decided (rejection or approval) on thirty-nine of them. The examination of the remaining three was completed in 2009.

2.3 Applications to exercise the right of acquisition

In 2008, the CySEC received five (3 in 2007) applications to exercise, by the Offerors, the right to acquire the remaining shares of the companies under acquisition, which were not obtained in the process of the Public Takeover Bid. The CySEC examined and approved all these applications.

3. Applications for expansion and diversification of activities

According to the procedure provided for by the relevant Regulations Decisions issued by the CSE Board, in 2008 the CySEC examined and approved the information memorandum of one investment firm (1 in 2007) regarding the expansion of its activities and its exemption from investment company restrictions, in order for this to be put to the vote of the shareholders of the issuer at the Annual General Meeting.

4. Continuous obligations of listed companies

On 31st December 2007 the Law on transparency requirements in relation to information about the issuers whose securities are admitted to trading on a regulated market [the Transparency Requirements (Transferable Securities Trading in a Regulated Market) Law of 2007] entered into force. The Law transposed into national legislation Directive 2004/109/EC of the European Parliament and Council regarding the harmonization of the transparency requirements in the European Union. The Law concerns issuers whose home Member State is the Republic of Cyprus and their securities are traded in a regulated market in Cyprus or in another Member State. The objective of this Law is to establish the requirements in relation to the disclosure of periodic and continuous information about issuers whose securities are already being traded in a regulated market. The CySEC is the competent Authority responsible for ensuring compliance with the provisions of this Law.

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

Within the framework of the monitoring of the compliance of issuers whose securities are traded 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 examines the following:

- Their compliance with the provisions of the law as to their obligation to disclose:
 - the Annual Financial Report;
 - the Six-month Financial Report;
 - the Indicative Results; and

- the Interim Management Statement,
as well as the content of these reports / disclosures.
- The compliance of their Annual Financial Report with the International Financial Reporting Standards;
- The compliance of issuers with the obligation of timely and full disclosure of any kind of material information.

In the process of the examination of the compliance of issuers with their obligation to disclose the Indicative Results for the year 2007, the CySEC decided to send letters to a number of issuers drawing their attention to the provisions of the law regarding Indicative Results and their disclosure.

In the process of the examination of the compliance of issuers with their obligation to disclose their Annual Financial Report for the year 2007, the CySEC decided to send letters to a number of issuers drawing their attention to the provisions of the law regarding Annual Financial Reports and their disclosure. Moreover, it decided to impose an administrative fine to two issuers for breach of Article 9(1) of the Transparency Requirements (Transferable Securities Admitted for Trading in a Regulated Market) Law, in view of the fact that they had not disclosed their Annual Financial Report for the year 2007 within the time limit provided for by the Law. (These fines were imposed in 2009).

In the process of the examination of the compliance of issuers with their obligation to disclose their Six-month Financial Report for the first half of 2008, the CySEC decided to send letters to a number of issuers drawing their attention to the provisions of the law regarding the Six-month Financial Report and its disclosure. Moreover, it decided to request from a number of issuers to provide explanations regarding the potential infringement of Article 10 of the Transparency Requirements (Transferable Securities Admitted for Trading on a Regulated Market) Law as to the disclosure and the content of the Six-month Financial Report. The CySEC is taking its decisions on these cases in 2009.

The CySEC assessed the Annual Financial Statements for the year 2007 of a number of companies with securities listed on the Cyprus Stock Exchange as to their compliance with the International Financial Reporting Standards. The Annual Financial Statements to be assessed were selected on a sampling basis and the purpose of this assessment was to establish the extent of the compliance of the Annual Financial Statements for the year 2007 with the

International Financial Reporting Standards. The results of the assessments were communicated to the companies concerned in order for them to provide explanations or/and to be taken into consideration in the preparation of their next audited financial statements. Based on this assessment procedure, the CySEC has requested an issuer to make a corrective statement / announcement disclosing the corrected financial statements for the said year. The assessment procedure continued in 2009.

In addition, the CySEC continued the examination, on a sampling basis, of the Annual Financial Statements of issuers that submitted their Prospectuses for approval, within the framework of the Prospectus examinations. The object of this examination was to establish the extent to which the Annual Financial Statements complied with the International Financial Reporting Standards. Where considered necessary, the issuers were asked to make corrections or include supplementary disclosures in the Financial Statements included in the Prospectus.

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

In nine cases (4 in 2007) the CySEC agreed with the decision of the Cyprus Stock Exchange Board for the delisting of the securities of issuers. One of these cases concerned the issuer's non-compliance with its continuous obligations, while the rest of them concerned the lack of sufficient dispersion of the shares of the issuers as a result of public takeover bids.

4.3 Corporate Governance Code

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

In addition to the above, the CySEC continued to monitor the announcements of the issuers. In those cases where reference was made to the application of the Code, the CySEC conducted investigations to establish whether the correct procedures as provided for by the Code and the procedure manual of the particular issuer were followed.

5. Participation in CESR committees

5.1 CESR Permanent Committees

The CySEC participates in the CESR-Fin committee. CESR-Fin is a permanent operating committee of CESR and its aim is to coordinate

the activities of CESR members on issues of endorsement as well as enforcement of the International Financial Reporting Standards. Also, it monitors the developments in Europe as regards supervision issues. Representatives of the competent Supervisory Authorities of every EU Member State, EU representatives and representatives of the CESR Secretariat participate in the meetings of this committee.

The CySEC also participates in EECS (European Enforcers Coordination Sessions). This committee was set up pursuant to CESR Standard 2 (Standard no. 2 on financial information – coordination of enforcement activities) and all Supervisory Authorities of EU Member States which are responsible for the supervision of financial information, participate in it, irrespective of whether they are CESR members or not. During the committee's meetings, significant decisions taken by Supervisory Authorities concerning the enforcement of the International Standards of Financial Reporting are, *inter alia*, discussed.

The CySEC is represented in the aforementioned committee by the senior officer and three officers of the Department. In 2008, officers of the Department participated in three meetings of CESR-Fin (3 in 2007) and five meetings (6 in 2007) of EECS.

5.2 CESR Expert Groups

An officer of the Department monitors, in cooperation with the Legal Department, the proceedings of the CESR Transparency Expert Group for the preparation of recommendations/guidance (Level 3) in relation to the enforcement of the EU Directive on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

5.3 CESR Contact Groups

Officers of the Department also participate in the following CESR contact groups:

- Prospectus Contact Group. The contact group aims at discussing issues arising from the practical application of the Prospectus Directive and its implementing measures and the issue of common positions by the Supervisory Authorities members of CESR.

In 2008, an officer of the Department participated in three meetings (3 in 2007) of the above contact group. In July 2006 the said group issued the first document titled "Frequently asked questions regarding prospectuses: common positions

agreed by CESR members", which is since then constantly updated with new common positions. The latest (eighth) update of the document took place in February 2009. The document is available on the CySEC website⁹.

- Takeover bids network. This contact group was established in 2007 with the aim of exchanging information and experiences arising from the practical implementation of the legislation on public takeover bids.

An officer of the Department, in cooperation with the Legal Department, closely follows the proceedings of the said group. In 2008, an officer of the Department participated in one meeting (1 in 2007) of the above contact group.

6. Circulars

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

- the Transparency Law;
- Publication of a part of the CESR database of decisions on issues concerning the enforcement of the International Financial Reporting Standards.

7. Studies

In 2008, the following issues were reviewed and suggestions/comments were submitted to the CySEC Legal Department:

- Proposed amendments to the Transparency Requirements (Transferable Securities to be Traded on a Regulated Market) Law of 2007;
- Draft CySEC Directives to be issued pursuant to the Transparency Requirements (Transferable Securities to be Traded on a Regulated Market) Law of 2007.

8. Personnel training

In 2008, the officers of the Department attended seminars on the following topics:

- International Financial Reporting Standards (IFRS) 4 and 7;
- IFRS on financial instruments;

⁹ <http://www.cysec.gov.cy/Downloads/Various/8th%20update%20of%20Q&A.pdf>

- Technical IFRS;
- 2008 year end International Financial Reporting Standards update;
- Conference on "Justice, Supervisory Authorities and Supervised Entities in the new European Financial Environment".

Department of Granting Operation Licences and Supervision of Investment Firms and Regulated Markets

The Department of Granting Operation Licences and Supervision of Investment Firms and Regulated Markets, based on the Strategic Plan adopted by the Board of the CySEC in 2007, has set, inter alia, the following objectives:

- To ensure convergence in the implementation of European Directives and close cooperation with other EU Supervisory Authorities in relation to matters concerning Investment Firms and Regulated Markets, by the regular participation of officers of the Department in the relevant CESR 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 Investment Firms – Regulated Markets

By the end of 2008, the CySEC had under its supervision 69 Investment Firms (CIF's) (65 in 2007) and one Regulated Market (Cyprus Stock Exchange) (none in 2007).

2. Applications by CIFs – Regulated Markets

Applications for:	2008	2007
• Granting a CIF operation licence	21	14
• Expansion of a CIF operation licence	19	9
• Free provision of services	19	10
• Granting a licence of tied representatives	4	15

2.1 Applications for granting a CIF operation licence

In 2008, the CySEC examined nineteen applications¹⁰ for granting a CIF operation licence (13 in 2007), granted eight CIF operation licences (12 in 2007) and rejected one application for granting a

¹⁰ Nine applications had been submitted in 2008 and ten in 2007

CIF operation licence (1 in 2007). The examination of the remaining applications submitted in 2008 was concluded in 2009.

2.2 Applications for the expansion of a CIF operation licence

These applications concerned the provision of additional investment and/or ancillary services and/or financial instruments.

2.3 Applications for the free provision of services

The applications concerned the free provision of services in other EU Member States.

2.4 Applications for the establishment of a branch in another EU Member State

The CySEC examined two applications by CIFs for the establishment of a branch in another EU Member State (2 in 2007).

2.5 Applications for changes in particulars

Throughout the year, the CySEC examined a significant number of applications for approving structural changes mainly concerning the organisation chart, the organisation structure, the internal rules of operation, the activities and the method of operation of CIFs. In those cases where the CySEC considered that the changes applied for did not conform to the relevant legislation, approval was not granted.

2.6 Applications for granting a regulated market operation licence

In 2008, there was no submission of applications for granting a regulated market operation licence; the compliance, however, of the Cyprus Stock Exchange (CSE) with all its legal obligations was examined (In 2007, the CSE was deemed, upon entry into force of the Investment Services and Activities and Regulated Markets Law, to hold a regulated market operation licence).

3. Monitoring of 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

In 2008, the CySEC performed sixteen on-site inspections (6 in 2007) in order to establish CIFs' compliance with their continuous obligations.

3.2 Examination of regular reports/documents submitted to the CySE

In 2008, the CySEC examined all the monthly and quarterly statements submitted to it concerning the capital adequacy of CIFs and their large exposures.

All monthly statements by CI Fs of significant transactions in cash submitted to the Cyprus Securities and Exchange Commission were examined.

3.3 Imposition of sanctions

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

- to impose an administrative fine to fourteen CIFs (24 in 2007);
- to set a deadline for compliance to a number of CIFs;
- to draw the attention of a number of CIFs to their obligations as provided for by law.

4. Legislation

4.1 CySEC Directives

During the year, the following CySEC Directives (5 in 2007) were prepared and published in the Official Gazette of the Republic of Cyprus:

- Directive on the large credit exposures of CIFs;
- Directive on the trading transparency requirements of securities traded in a regulated market.

4.2 Circulars

In 2008, the CySEC prepared and circulated eighteen circulars to CIFs (18 in 2007), the most significant of which being:

- Assessment of shareholders' suitability;
- Transaction reporting;
- Compliance with the provisions of the Investment Services and Activities and Regulated Markets Law of 2007;
- Articles 32 and 33 of the Investment Services and Activities and Regulated Markets Law of 2007;
- Designation of third countries which impose procedures and take measures for preventing money laundering and terrorist financing equivalent to those laid down by the European Directive 2005/60/EC;

- Database by the Committee of European Banking Supervisors - CEBS on issues concerning the capital adequacy and large credit exposures of CIFs;
- The impact of the international financial crisis on CIFs;
- Transaction reporting on derivative instruments that are listed on a regulated market;
- Notification of information to the CySEC.

4.3 Consultation Papers

In 2008, one consultation paper was prepared and published (5 in 2007) on the prevention of money laundering and terrorist financing.

4.4 Forms

In 2008, six forms were prepared and published (3 in 2007), as follows:

- Forms concerning the free provision of services and/or activities in another EU Member State or third country;
- Form concerning the checklist for the internal procedures manual which accompanies the CIF application;
- Form concerning the establishment of a branch in another EU Member State or third country;
- Form concerning large exposures to individuals or a group of related persons;
- Form concerning changes in the individuals who effectively direct the business of a CIF;
- Form concerning the notification of intention to establish the necessary infra structure for access to another EU Member State.

5. Participation in Committees

5.1 CESR expert groups and subgroups

Three officers of the Department participate in three different CESR expert groups or subgroups which are responsible for the preparation and issue of guidelines regarding the implementation of European Directives 2004/39/EC (Markets in Financial Instruments Directive) and 2006/73/EC (Implementing Directive of Directive 2004/39/EC).

In 2008, a total of twelve meetings of the above groups were held (14 in 2007).

5.2 Participation in the European Commission committee for the preparation of measures for the regulation of Credit Rating Agencies

One officer of the Department participated as an expert-advisor of the Ministry of Finance in two meetings held at European level (European Securities Committee) regarding the preparation of measures for the regulation of Credit Rating Agencies.

5.3 Other Committees

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

- Examination Committee responsible for granting professional competence certificates to employees and/or executives of Investment Firms (IFs)/credit institutions;
- Administrative Committee of the Investors' Compensation Fund, which is responsible for the administration of the Compensation Fund for Customers of CIFs and other IFs.
- Advisory Authority which examines issues concerning the prevention of money laundering and terrorist financing together with the representatives of the Law Office of the Republic, the Central Bank, the Authority for the Supervision and Development of Cooperative Societies, the Institute of Certified Public Accountants of Cyprus and the Cyprus Bar Association.

6. Training of supervised entities

In 2008, the CySEC organised two seminars (4 in 2007) for CIF executives which covered issues pertaining to capital adequacy of CIFs – Common Reporting (COREP).

7. Participation in training seminars

The officers of the Department attended training seminars on the following:

- The implementation of the European Directive for Markets in Financial Instruments (MiFID);
- The implementation of European Directives for capital requirements (CRD) including COREP;
- Risk management;
- The implementation of effective supervision systems;
- International Financial Reporting Standards.

Department of Granting Operation Licences and Supervision of UCITS and UCITS Management Companies

1. Notifications/ Applications to enable the marketing of units of foreign harmonised and non-harmonised UCITS in the Republic

In the context of the Strategic Plan adopted by the Board of the CySEC in 2007, the Department of Granting Operation 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 the regular participation in the various CESR 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).

In order to enable the marketing of units of foreign harmonised UCITS in the Republic, the CySEC mainly verifies that a certificate by the competent Supervisory Authorities of the country of origin has been submitted to the CySEC, confirming that the requirements set by the European Directive 85/611/EEC as amended are met. Also the CySEC verifies that the forms based on which the UCITS intend to market their units in the Republic (e.g. UCITS Regulation, full and simplified Prospectus, annual and six-months statements) have been produced, as well as whether the expected method of marketing the units in the Republic complies with the UCITS Law and the CySEC Directives issued pursuant to this Law.

To enable the marketing of units of foreign non-harmonised UCITS in the Republic, it is required to obtain prior authorisation by the CySEC.

In particular, by the end of 2008, the following UCITS were in operation:

<i>Number of foreign harmonised UCITS:</i>	2008	2007
• single schemes	34	37
• umbrella schemes	17	17
<i>Total</i>	51	54

<i>Number of foreign non-harmonised UCITS:</i>	2008	2007
• single schemes	1	2
• umbrella schemes	3	3
<i>Total</i>	4	5

<i>Total number of sub-funds under the umbrella schemes</i>	2008	2007
• harmonised UCITS	316	337
• non-harmonised UCITS	28	28
<i>Total</i>	340	365

<i>State of origin of foreign UCITS:</i>	2008	2007
• Number of harmonised UCITS		
- Greece	32	25
- Luxemburg	13	12
- Ireland	4	5
- France	2	2
- Austria	0	10
<i>Total</i>	51	54
• Number of non-harmonised UCITS		
- Jersey Island	4	4
- Channel Islands	0	1
<i>Total</i>	4	5

In 2008:

- The marketing in the Republic of units of foreign harmonised UCITS was terminated in sixteen cases, on application by the UCITS.
- The marketing in the Republic of units of foreign harmonised UCITS was terminated in two cases as a result of their merger with other UCITS.
- Fifteen foreign harmonised UCITS were registered with the CySEC for the marketing of their units in the Republic.
- The registration of foreign non-harmonised UCITS was terminated in one case, on application by the UCITS.
- The number of the distributors of the above UCITS approved by the CySEC was fourteen in total (15 in 2007). In particular, in 2008:
 - three UCITS Distributors were deleted from the register:
 - one distributor upon its own request;
 - one distributor of a non-harmonised UCITS due to the termination of the marketing of the said UCITS;
 - one distributor due to the fact that it no longer fulfilled the provisions of the UCITS Law to act as a UCITS distributor in the Republic.
 - two new distributors were added to the UCITS Distributors Register in 2008.

2. Cross-border provision of services in the Republic by Management Companies domiciled in an EU Member State

In 2008 we received three (1 in 2007) new notifications by harmonised Management Companies whose home country is an EU Member State concerning the cross-border provision of services in the Republic, for which they have obtained an operation licence by the competent Supervisory Authority of the home Member State, in accordance with the relevant national legislation, which transposes the European Directive 85/611/EEC.

By the end of 2008, we had a total of six (3 in 2007) Management Companies whose home country is an EU Member State that registered with the CySEC for the cross-border provision of services in the Republic, from the following Member States:

Member States	2008	2007
- France	3	1
- Luxemburg	2	1
- Austria	1	1
Total	6	3

3. Monitoring of compliance with the 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 UCITS and their Distributors as regards:

- 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 their registration day following 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 the rights of the investors in the Republic;
- The payment of the annual contributions by the foreign UCITS and foreign Management Companies, in cooperation with the CySEC Accounting Department.

In the context of examining the compliance with the obligations to keep the CySEC and investors informed, the CySEC has established a potential breach of the UCITS Law, which constitutes a criminal offence, by a foreign UCITS and its Distributor in the Republic. The CySEC referred the said case to the Attorney General for further action since it is the Attorney General who the competent Authority dealing with criminal offences.

4. Legislation, CySEC Directives and Circulars

4.1 Law

On 18th July 2008, the Open-ended Undertakings for Collective Investments in Transferable Securities (UCITS) and Related Issues

(Amending) Law of 2008 was published in the Official Gazette of the Republic.

4.2 CySEC Directives

In 2008, the following CySEC Directives were prepared and published in the Official Gazette of the Republic:

- Directive regarding eligible assets for investment by UCITS (harmonisation with the European Directive 2007/16/EC);
- Directive regarding UCITS Distributors;
- Directive regarding the authorisation for marketing in the Republic of units of non-harmonised UCITS (based on which new forms for the authorisation of the marketing of the units of the said UCITS in the Republic were prepared and issued);
- Directive regarding UCITS advertisements.

4.3 Circulars

In 2008, the following Circulars were prepared and circulated (3 in 2007):

- Ongoing obligations of foreign harmonised UCITS;
- Register of distributors of UCITS.

4.4 Consultation Papers

In 2008, the following consultation papers were prepared and circulated (1 in 2007):

- Permitted forms of UCITS investments;
- UCITS Distributors;
- Granting of authorisation to market units of foreign non-harmonised UCITS in the Republic;
- UCITS advertisements.

5. Participation in the CESR Expert Group on Investment Management

In 2008, an officer of the Department participated in one meeting (5 in 2007) of the CESR Expert Group on Investment Management.

6. Participation in other committees

An officer of the Department participates in the following committees:

- Examination Committee responsible for the granting of

professional competence certificates to employees and/or executives of Investment Firms/credit institutions;

- Ad hoc Committee established with the aim of making suggestions for the enactment of a legislative framework for Undertakings for Collective Investments not falling within European Directives and for which the competent Supervisory Authority is expected to be the CySEC.

Department of Market Surveillance and Investigations

In the context of the Strategic Plan adopted by the Board of the CySEC 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 to prevent 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.

1. Potential violations

During the period under review, the Department of Market Surveillance and Investigations investigated cases concerning the following categories of violations:

1.1 Potential violations concerning the Law on Insider dealing and Market Manipulation (Market Abuse), Law no. 116(I)/2005. ("Market Abuse Law")

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

The CySEC proceeded with the investigation of a total of twenty cases (4 in 2007) as follows:

- One case concerned a potential violation of Article 11(1)(a) of the Market Abuse Law and paragraph 5(h) of the CySEC Directive 1/2005 on the non-disclosure of confidential information concerning an issuer the soonest possible. The CySEC decided to send a letter of reprimand drawing the attention to the provisions of the CySEC Directive.
- One case concerned a potential violation of Article 11(1) of the Market Abuse Law and paragraph 4 of the CySEC Directive 1/2005 on the non-issue of an announcement by a listed company which would have informed the public of the developments in relation to one of its subsidiaries. In view of the delisting of this company from the Cyprus Stock Exchange, the CySEC decided not to take any further action.

- One case concerned a potential violation of Article 11(2)(b) of the Market Abuse Law on a misleading statement, promise or forecast by a company director. The CySEC decided to send a letter of reprimand drawing the attention to the provisions of the CySEC Directive.
- Two cases concerned a potential violation of Article 5 of the CySEC Directive 5/2005 on the Code of Conduct of Directors and Related Persons, Regulatory Administrative Act (KDP) 447/2005, ("CySEC Directive 5/2005") issued pursuant to the Market Abuse Law, on the restriction on a company director or related person to trade during a closed period. For one case the CySEC decided to send a letter of reprimand drawing the attention to the provisions of the CySEC Directive. For the other case the CySEC decided not to take any further action due to lack of sufficient evidence.
- Three cases concerned a potential violation of clause (1) of Article 5 of the CySEC Directive 5/2005 and of article 13 of the Market Abuse Law. In the first case, the potential violation was made by the executive and managing director of a listed company when he acquired shares of the listed company. The CySEC decided to impose a fine on the executive and managing director. In the second case, a listed company acquired its own shares during the closed period. The CySEC decided to impose an administrative fine on the company. In the third case, the chairman of a listed company traded in shares of the listed company through intermediaries and/or persons acting on his behalf and/or following his instructions during the closed period. The CySEC decided to impose an administrative fine on the chairman of the company.
- One case concerned a potential violation of clause (1) of Article 5 and Articles 6 and 7 of the CySEC Directive 5/2005 on the Code of Conduct of Directors and Related Persons and of Article 13 of the Market Abuse Law by a company, after trading (purchasing) in issuer's shares during the closed period without the necessary permission. The CySEC decided to impose an administrative fine.
- One case concerned a potential violation of clause (1) of Article 8 and clause (1) of Article 10 of the CySEC Directive 5/2005 and Article 13 of the Market Abuse Law on granting of permission by a Chairman of a Board of Directors to an executive and managing director of the issuer for the acquiring of issuer's shares during a prohibited period which includes a closed period. The CySEC decided to impose a fine to the Chairman of the Board of Directors.

- Five cases concerned a potential violation of Article 19 of the Market Abuse Law. In two of the cases (one of them pertained to a company and the other to a mass medium), information was disseminated through announcements, which gave or aimed at giving false or misleading indications about the financial instruments of the company, while the individuals concerned knew or owed to have known that this information was false or misleading (Article 20(1)(c) of the Market Abuse Law). In the third case, the chairman of a listed company conducted market manipulation by trading in shares of the listed company through intermediaries, as well as directly, and thus false or misleading indications were given about the supply, demand or the price of the company's shares (Article 20(1)(c) of the Market Abuse Law). In the other two cases, the trading of individuals acting as intermediaries on behalf of and/or following the instructions of the chairman of a listed company, gave or might have given false or misleading indications on the supply, demand or the price of the company's shares (Article 20(1)(c) of the Market Abuse Law). The CySEC decided to impose administrative sanctions in all five cases.
- Two cases concerned a potential violation of clause 1(a) of Article 9 of the Market Abuse Law, by possessors of confidential information who used this information for the acquisition of financial instruments to which this information related. In the first case, the CySEC decided that the violation could not be substantiated while in the second one it decided to impose administrative sanctions.
- Two cases concerned a potential violation of Article 18 of the Market Abuse Law. In the first case a person exercising managerial duties in a listed company together with the persons who were closely related to him, proceeded with trading in the company's shares without announcing the trades and in the second case the chairman of a listed company traded in shares of the company through intermediaries and/or persons acting on his behalf and/or following his instructions without announcing the trades. The CySEC decided not to take any measures regarding the first case while in the second case it decided to impose administrative sanctions.
- One case concerned a potential violation of Article 16 of the Market Abuse Law, regarding a listed company which failed to keep a record of the individuals who had access to confidential information. The CySEC decided to send a letter of reprimand drawing the attention to the provisions of the Law.

1.2 Potential Violations in terms of the power of the CySEC to Collect Information, Enter, Investigate and Impose Administrative Fines

This category includes cases of violations of the obligations of every natural or legal person as regards the timely, full and precise provision of information required by the CySEC. These violations are covered by **Part VI, (Articles 33–41)** and **Part VII (Article 42)** of the Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Laws (N. 64(I)/2007 as amended).

In 2008, the CySEC proceeded with the investigation of five cases in total (9 in 2007) as follows:

- Two cases concerned a potential violation of Articles 33(5) and 33(6) in relation to the obligation of a person to give information necessary or helpful for the exercise of the responsibilities of the CySEC. In both cases, the CySEC decided not to further examine the issue at the present stage due to conflict between the provisions of two legislative measures transposing EU Directives. This conflict in the provision in the EU Directives is being discussed at European Union Level.
- Three cases concerned a potential violation of Articles 33(3), 33(5), 33(6) and 42 since no information had been submitted to the CySEC following requests for collection of information. The CySEC decided to impose administrative sanctions in all three cases.

1.3 Potential violations concerning the provision of investment services by firms who did not have a CIF operating license

This category includes cases of potential violations by companies which provide or appear to provide investment services, without being duly authorised by the CySEC. These violations are covered by **Articles 4 and 5** of the Investment Services and Activities and Regulated Markets Law (Law N.144(I)/2007).

In 2008, the CySEC investigated one case (4 in 2007) which concerned a potential violation of Article 4 of the Investment Services and Activities and Regulated Markets Law by a company which provided or appeared to provide professional investment services in or outside the Republic. The CySEC decided that there wasn't enough evidence to substantiate a violation. An announcement/warning was issued for the investors.

1.4 Monitoring and investigation of investors complaints

In 2008, the CySEC received complaints by investors against CIFs and listed companies as well as complaints of other nature. In the two cases investigated, there was not any violation.

1.5 Potential violation of the Corporate Governance Code (CGC)

This category comprises cases which concerned the enforcement of the Corporate Governance Code which aimed at enhancing the supervisory role of the Board of Directors in listed companies, protecting small shareholders, adopting transparency and providing timely information as well as ensuring the sufficient independence of the Board of Directors in decision-making. In 2008, the CySEC did not carry out any investigation (1 in 2007).

1.6 Potential violations concerning the obligation to submit a public takeover bid to the holders of a company's securities for the acquisition of all or part of its securities

This category comprises cases of violations whereby a person, as a result of the acquisition by him/her or by persons acting following an understanding with him/her, possesses securities of the company, which, added to any securities which he/she already holds, gives him/her directly or indirectly a percentage equal or greater than thirty per cent (30%) of the voting rights in the said company. This person is obliged to submit a public takeover bid to all holders of these securities, for all the securities they hold. These violations are covered by **Articles 5, 6, 13 and 17 of the Public Takeover Bids Law** (Law no. 41(I) 2007).

In 2008, the CySEC proceeded with the investigation of a total of three cases as follows:

- Three cases which concerned a potential violation of Article 13 for non-compliance with the obligation for making a mandatory public takeover bid to the company's shareholders for the acquisition of 100% of its share capital. In two of the cases, the CySEC decided upon application by the persons concerned to grant an exception from the obligation to make a public takeover bid. In the third case, the CySEC decided to impose an administrative fine.

2. Announcements and Circulars

2.1 Announcements

During the year, for public information purposes, seven announcements were published regarding the imposition of administrative fines to natural and legal persons.

2.2 Circulars

No circular was issued during the year (3 in 2007).

3. Personnel Training

In 2008, a number of officers and one assistant secretarial officer of the Department attended seminars on the following:

- FSA International Boiler Room Conference; Second Administration Conference;
- Core International Financial Reporting Standards;
- Second Administration Conference.

4. Participation in CCSR committees

A number of officers and one assistant secretarial officer of the Department participated in meetings of the group on the procedures of the Committee of European Securities Regulators (CESR) CCSR-Pol and the Surveillance & Intelligence sub-group on issues concerning the Department's responsibilities.

Legal Department

1. Preparation of Regulations, CySEC Directives and Amending Laws

In the context of the Strategic Plan adopted by the Board of the CySEC in 2007, the Legal Department has set its objectives to be, 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 Legal Department proceeded, in cooperation with the competent departments of the CySEC, with the legal processing and final issue of the following Laws/CySEC Directives:

- The Open-Ended Undertakings for Collective Investment in Transferable Securities (UCITS) and Related Issues (Amending) Law of 2008 (Law 59(I)/2008);
- The Code of Conduct of Directors and Related Persons Directives, Directive 116-2005-01, Directive 116-2005-02 and Directive 116-2005-04, amending Directive 5/2005;
- The Obligations for Publication of Confidential Information of Issuers of Financial Instruments Directive 116-2005-03 amending Directive 1/2005;
- The Eligible Assets for Investment by UCITS Directive 200-2004-01. (Regulatory Administrative Act - KDP 132/2008);
- Directive 200-2004-02 on UCITS Distributors (Regulatory Administrative Act - KDP 394/2008);
- Directive 200-2004-03 on the marketing of units in the Republic by UCITS domiciled in an EU Member State not falling within the provisions of Directive 85/611/EEC or UCITS domiciled in a third country. (Regulatory Administrative Act - KDP 413/2008);
- Directive 200-2004-04 on UCITS advertisements;
- The Announcement of the Intention or the Firm Intention to Make a Public Takeover Bid Directive 41-2007-05, amending Directive on Public Takeover Bid 1/2007;
- The Notification of Significant Participation in an Issuer Directive 190-2007-01 of 2008. (Regulatory Administrative Act - KDP 47/2008);
- The Exemption to the Aggregation of Holdings Directive 190-2007-02 of 2008. (Regulatory Administrative Act - KDP 48/2008);
- The Dissemination of Regulated Information Directive 190-2007-03 of 2008. (Regulatory Administrative Act - KDP 49/2008).

2. Participation in CESR committees

In 2008, the CySEC participated in a CESR sub-group meeting to discuss practical issues on the application of Directive 2004/25/EC on Takeover Bids held in Paris.

Furthermore, the CySEC participated in three meetings of the Expert Group concerning the European Directive on Transparency held in Amsterdam and Paris.

Representatives of the competent Supervisory Authorities of every EU Member State, representatives of the EU and the CESR Secretariat participate in the meetings of the said sub-groups. The CySEC was represented in the case of Public Takeover Bids by an officer of the Legal Department and in the case of Transparency by two other officers of the Legal Department.

3. Training Seminars

In 2008, officers of the Legal Department attended the following training seminars:

- The City Code on Takeovers and Mergers held in London;
- Three-day seminar on Justice, Supervisory Authorities and Supervised Institutions on the new European Financial Environment held in Nicosia.

4. International Relations

In 2008, Cyprus signed two memoranda/protocols of cooperation, with the competent supervisory authority of Dubai (Dubai Financial Services Authority) and the competent supervisory authority of the Russian Federation (Federal Financial Markets Service of Russia).

Administration and Personnel Department

The implementation of the plan which aims, in the medium term, at the CySEC's financial independence, continued in 2008. The CySEC has already studied and promoted the revision of the fees system based on the cost of services.

1. Training and Seminars

Officers of the Department participated in a seminar on the application of the Principles of Public Governance in the Public Sector, in a seminar on the practices of promotion of Green Public Procurements (GPP) in Cyprus as well as in seminars on the development of professional relations at work and the better management of its operations.

2. Participation in CESR committees

An officer of the Department participates in a CESR committee which is responsible for the development of a common culture and cooperation amongst the European Securities and Exchange Commissions of the EU. In the context of this committee, the task of the creation of a common policy for the exchange of personnel of CESR members as well as the promotion of a common training in cooperation with the other two Authorities which form the third level of committee for the financial sector - CEBS (credit institutions) and CEIOPS (insurance and pension funds) was realised.

IT and Operations Department

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

- To ensure high standards of information and protection of investors through the regular 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 and technology in general.

1. Website

The aim of the CySEC website is the easy provision of useful information on Cyprus securities market both to investors and to other interested parties such as Investment Firms and Issuers. The CySEC offers the "Email Alerts" service free of charge to the public which automatically notifies subscribers as soon as any significant change/addition is made in the CySEC website.

2. Internal Network

The Department places great importance on the appropriate and safe keeping of information given 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 the central core for the management of the CySEC documents and operations. This system will be used as an electronic archive for CySEC documents. Further to providing document storage and safe-keeping, this system will enhance automation of the workflow by automatically forwarding documents to a different department/officer for further processing. Therefore, the CySEC has set up an archive team which operationally falls under the IT and Operations Department.

3.2 Notification of Transactions

During the year, the system for the provision of information amongst the competent Authorities of the EU, known as the Transaction Reporting Exchange Mechanism (TREM), was further developed in accordance with Article 25 of Directive 2004/39/EC,

MiFID, to also include product derivatives through the codification "Alternative Instrument Identifier (AII)". Article 25 provides that EU Member States should take the appropriate measures so that the appropriate Authority can oversee the activities of investment firms in order to ensure that they act in an honourable, fair and professional manner for reinforcing market integrity.

4. European Issues

The officer of the Department participates in the CESR sub-group, CESR-Tech, and also in meetings of representatives of all EU Member States during which 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.

Investor Education and Training Programme

The CySEC continued the work of the previous years for the design and development of an investor education and training programme on financial matters with emphasis placed on those topics relating to the securities market.

The Advisory Committee for Public Financial Education (hereafter called "Advisory Committee") which was created in 2007 with the participation of representatives from the CySEC, the Central Bank of Cyprus, the Ministry of Finance, the Ministry of Commerce, Industry and Tourism, the University of Cyprus, the Cyprus Consumers Association and the Cyprus Investors Association, held a meeting in which proposals and ideas for achieving the objectives of the programme were discussed. The decisions of the meeting include the next steps for the design of the training programme, the programme's priorities, as well as the decision for studies to be conducted and material to be collected regarding the training programmes of other EU Member States in order to utilize the examples and experiences drawn from them in finalising the programme.

During the year, the membership of the Advisory Committee was expanded with the participation of representatives from the Authority for the Supervision and Development of Cooperative Societies and the Insurance Companies Control Service. This development resulted in the Advisory Committee now covering all the financial sector of Cyprus.

In the context of its investor education programme, the CySEC in cooperation with CESR issued an Investors' Guide with the aim of better informing all those investing or intending to invest in financial instruments. The Guide explains the main provisions of the European Directive on the Markets in Financial Instruments (MiFID), as well as the way in which they affect the public in their dealings with Investment Firms in Europe. The issue of the Guide was promoted with a press conference. Copies of the Guide are widely available to the public at the offices of the CySEC, at the Central Bank, the Investment Firms and at the offices of the Consumers Association nationwide. The Guide is also accessible via the CySEC website for easier access. Furthermore, the entire content of the Guide was published in parts on a weekly basis in all newspapers nationwide.

Towards the end of the year, the CySEC officially commenced the regular publication of informative and educational articles in daily newspapers, financial magazines and financial-related websites. These articles are divided into thematic sections and include information on how securities markets operate, on the CySEC itself, the stock exchanges, Investment Firms, the companies listed on the Stock Exchange, mutual funds, financial crisis, basic financial indices, investors' rights, common mistakes which investors should avoid and other basic knowledge/

information/skills that every investor or prospective investor should have. The public is invited to send suggestions on financial topics to be covered by the articles or to submit any queries. This initiative by the CySEC received very positive comments by the public.

Recently, the CySEC decided to undertake a study on the usefulness of conducting a nationwide survey in order to measure the public knowledge/understanding on issues relating to the securities market and to investments in transferable securities and investigate the parameters leading to specific trends, decisions, actions as well as growing beliefs of the public as regards investments in transferable securities. The conduct of such a survey will also help the CySEC to determine the appropriate directions and priorities of the investors' education programme and to save money, time and energy in its implementation by reducing the possibilities of mistakes.



Section C

Annexes

Annex 1

Legislation

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

- The Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Laws of 2001 – 2007;
- The Securities and Cyprus Stock Exchange Laws of 1993 – 2007 and the Regulations issued pursuant to these laws;
- The Securities and Cyprus Stock Exchange Laws (Public Bid for the Takeover of Securities and the Merger of Companies Listed on Cyprus Stock Exchange) Regulations of 1997-2006 (Abolished on 5.4.2007);
- The Public Takeover Bids Law of 2007 (entered into force on 5.4.2007);
- The Securities and Cyprus Stock Exchange (Central Securities Depository and Central Securities Registry) Laws of 1996 -2008;
- 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 to 2005 (abolished on 1.11.2007);
- The Investment Services and Activities and Regulated Markets Law of 2007 (entered into force on 1.11.2007);
- The Public Offer and Prospectus Law of 2005;
- The Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law of 2007 (entered into force on 31.12.2007);
- 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 (entered into force on 31.12.2007).

Annex 2

Duties of the individual Departments

A. 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 for 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 examination of proposed legislative measures relating to the Department's responsibilities and the submission of relevant suggestions.

B. Department for Granting Operation Licences and Supervision of Investment Firms and Regulated Markets

The duties of the Department for Granting Operation Licences and Supervision of Investment Firms and Regulated Markets mainly include the following:

- The examination of applications for granting CIF operation licences¹¹ 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 operation licence;
- The examination of applications for approval of tied representatives of CIFs;

¹¹ Where there is reference in the text to CIFs, it also includes third country IFs (except credit institutions).

- The contacts and meetings with companies, which are at the stage of preparing their application for granting of a CIF operation licence for discussing issues relating to their application;
- The contacts and meetings with CIF representatives for discussing issues relating to the operation 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 operation 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 examination, preparation and issue of CySEC Directives, Circulars and Forms under the Investment Services and Activities and Regulated Markets Law of 2007;
- The examination of legal framework for Credit Rating Agencies;
- The training of the entities involved;
- The participation in experts groups of CESR 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/credit institutions;
- The participation in the Administrative Committee of the Investors' Compensation Fund, which is responsible for the administration of the Compensation Fund for Customers of Cyprus Investment Firms and other Investment Firms;
- The participation in the Advisory Authority which examines issues concerning the prevention of money laundering and terrorist financing.

C. Department for Granting Operation Licences and Supervision of Open-Ended UCITS and UCITS Management Companies

The duties of the Department for Granting Operation Licences and Supervision of Open-Ended 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 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 relative suggestions;
- The participation in the CESR's Expert Group on Investment Management;
- The participation in the Examination Committee responsible for granting professional competence certificates to employees/executives of Investment Firms/credit institutions;
- The participation in the ad hoc Committee established for making suggestions for the enactment of a legislative framework for UCITS not falling within European Directives and for which the competent Supervisory Authority is expected to be the CySEC.

D. 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 (Law no. 116(I)/2005);
- The investigation of potential violations of the Securities and Cyprus Stock Exchange Laws and Regulations;

- The conduct of investigations on issuers 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 CESR's operational groups on issues relating to the Department's responsibilities.

E. 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 an records 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 file - decision announcements;
- The legal support of the CySEC (correspondence – internal legal opinions - investigations);
- The harmonization of the legislation with the relevant European Union legislation;
- 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.

F. Administration and Personnel Department

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.

- Financial Issues
 - Preparation of the CySEC budget and the monitoring of its faithful execution;
 - Undertaking and monitoring of 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;
 - Coordination of the Medical Care scheme.
- Other
 - Provision of secretarial support to the other Departments;
 - Management of correspondence and telephone centre;
 - Archiving of CySEC's files;
 - Care for the correct management and maintenance of the equipment;
 - 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 securities market issues;
 - CySEC's safety issues.

G. IT and Operations Department

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

- 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 personnel training;
- 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 Annual Report of the Cyprus Securities and Exchange Commission has been printed on 100% recycled paper

Published by **GNORA Communication Consultants** Printed at **Proteas Press** Photographs: **Dreamstime.com**