

# COMMITTED TO

## RESPONSIBLE AND HEALTHY GROWTH

**GEORGE KARATZIAS,  
VICE-CHAIRMAN OF THE  
CYPRUS SECURITIES AND  
EXCHANGE COMMISSION  
(CYSEC), OUTLINES CYPRUS'  
ASSET MANAGEMENT  
INDUSTRY AND HIGHLIGHTS  
THE IMPORTANCE  
OF INCREASING THE  
COMMISSION'S STAFF  
NUMBERS TO ENSURE  
MARKET INTEGRITY.**

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**an you provide us with an overview of the asset management industry in Cyprus, including the types of registered funds and their main activities?**

The funds industry is constantly evolving. Even in these turbulent times, the country is flourishing as a location of choice for many investors and fund managers, with assets under management (AUM)

reaching €10.7 billion in the first quarter of 2023. CySEC currently supervises 335 Management Companies and Undertakings of Collective Investments (UCIs), up from 333 during the fourth quarter of 2022 and 322 during the same period of the previous year, recording an increase of 0.60% and 4.03% respectively. Of these entities, 223 are externally managed UCIs, 39 internally managed UCIs and 73 external Fund Managers. The total number of Management Companies includes 46 AIFMs, 57 Sub-threshold AIFMs, 3 UCITS Management Companies and 6 dual licence entities (AIFMs and UCITS Management Companies). There are 219 UCIs with operations; 77% of the total AUM held by 195 UCIs

domiciled in Cyprus (13 UCITS, 56 AIFs, 52 AIFLNs and 74 RAIFs). Of these, 170 invest in Cyprus partially or entirely, and these investments amount to €2.5 billion or 23.6% of the total AUM, significantly higher than other main European fund jurisdictions. Of these investments in Cyprus, 74.8% are in private equity while 11.7% are in real estate. The AIF Law regulates the establishment and operation of three types of funds: Alternative Investment Funds (AIFs), Alternative Investment Funds with Limited Number of Persons (AIFLNs) and the Registered Alternative Investment Funds (RAIFs). These provide various services, with some of their main activities including accounting services, responding to investor inquiries and overseeing regulatory compliance. Moreover, they are responsible for revenue distribution, the issue and redemption of shares and the maintenance of the register of unitholders. Processing transactions, including sending certificates and record keeping, is another part of their primary responsibility. As of the end of August 2023, there were 15 new applications pending review.

**Discussions are ongoing to introduce a dedicated fund administration legislation to Cyprus. What are the potential benefits that such legislation could have for the local industry?**

CySEC is introducing an additional refinement to the legal framework concerning the fund administration function received as a delegation, thereby upgrading local legislation to be in equilibrium with that of other fund jurisdictions. Within the new regulatory framework, companies receiving delegation to perform fund administration of Cyprus-regulated or registered funds will need to be licensed by CySEC to meet the requirements of the new law. This will enhance the quality of options of fund managers seeking to delegate the function. It will also enable local fund administrators to service funds abroad that require regulated entities to perform the function. The

work of CySEC and the Ministry of Finance has been concluded and the proposed legislation is currently being examined by the Law Office.

**In the sustainable finance conversation, SFDR Level 2 has been introduced to clarify some of the vague points in its predecessor, such as product classification. However, asset managers say that they need more guidance and support from regulators when dealing with the regulation. So, how is CySEC supporting them here?**

In preparation for the new Sustainable Finance Disclosures Regulation (SFDR), which became applicable in March 2021, CySEC created a dedicated section on sustainable finance on its website, which also provides information on the regulation. SFDR provides more transparency on sustainability within the financial markets and is expected to affect a large proportion of the financial services industry in Cyprus. Furthermore, CySEC acknowledges the challenges an investment manager could encounter when trying to ensure compliance with the sustainable finance framework. To this end, it has issued Circular 509, which specifically addresses investment managers. This elaborates on the relevant regulatory framework and the adherence expectations of competent authorities across the EU. Since it's a newly introduced complex framework, requiring multiple and complex information/data assessments to check and ensure adherence by investment managers and other relevant regulated entities, CySEC and other regulators face similar challenges. For this purpose, CySEC has signed up for a European Commission ESG programme. Regarding SFDR Level 2, the regulation is, almost in its entirety, relevant to Article 8 and 9 funds. According to CySEC's records for 2022, there is a very limited number of funds falling under its supervision, which are assessed by their manager based on Article 8 or 9.

**To improve CySEC's oversight, there is a need for specialised expertise. What initiatives are being considered to overcome hurdles in increasing human capital and specialization?**

The number and type of supervised entities, as well as the size and complexity of their structures and operations, are constantly expanding. Although CySEC is an independent authority of a small European nation, it regulates industries that exceed the size of the largest jurisdictions in the EU. This is demonstrated in the analysis performed and published by ESMA in July 2023 for 2022, when Cyprus was the largest exporter of cross-border financial services in the EU in terms of the number of firms and volumes. This creates huge responsibilities and needs for CySEC to regulate the industries effectively and efficiently, as well as continuing to support the further healthy growth of existing or new markets in Cyprus.

The complex and detailed new EU Directives and regulations, which have recently entered into force or are pending implementation, greatly increase the supervisory obligations and responsibilities of CySEC, at both a national and a European level, a pattern which is expected to continue in the coming years. While CySEC's ability to attract industry experts is currently limited, it has in its ranks senior personnel with huge experience, who can support the training and internal development of new staff. Meanwhile, constant and continuous training is being facilitated both internally and externally so that our staff remain on top of new legislation and developments in the EU financial markets.

Therefore, the strengthening of CySEC's headcount is essential to ensuring the integrity of the markets it regulates, which is a basic requirement for attracting new investors and for the further development of the economy. As a result, it is imperative that

CySEC continues to have at its disposal all the necessary powers and resources to be effective as a Supervisory Authority. The Government and the House of Representatives have given their approval for 20 new positions, and we are now in the process of hiring additional staff. Their support in the following years is crucial for the ability of CySEC to carry on its mission.

**Finally, looking ahead, how do you envision the future of the funds industry in Cyprus?**

Cyprus is positioned as a jurisdiction of choice for small and medium-sized alternative fund managers (meaning managers with AUM of €15-20 million and above). The country has several strengths to support this positioning, such as the availability of highly qualified staff on the ground, an established ecosystem to support fund managers, a modern fund legislation that is still in the process of being upgraded, comparatively lower costs of services and a competitive tax system.

What I believe is missing is a long track record in the funds industry as Cyprus is a relatively new entrant in this field. Nevertheless, in my opinion, the required elements to succeed are there; it is only a matter for the industry to promote its offering and identify the opportunities in the region or beyond. This is a difficult and long effort, requiring cost and a lot of travel. However, I am positive that Cyprus will reach its medium-term goal of becoming a regional hub for European alternative investment funds in the coming years, provided that the efforts of the industry and the Government's support continue. CySEC is committed to creating all the necessary preconditions for the responsible and healthy growth of the collective investment sector, underpinned by strong supervision to safeguard investor protection.



CySEC

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