

DIRECTIVE DI144-2007-15 OF 2015 OF THE CYPRUS SECURITIES AND EXCHANGE COMMISSION FOR THE CONTINUANCE OF OPERATION AND THE OPERATION OF THE CIF INVESTOR COMPENSATION FUND

PART I INTRODUCTORY PROVISIONS

1. Short title
2. Interpretation

PART II OBJECT, MEMBERS AND SCOPE OF APPLICATION OF THE FUND

3. Object of the Fund
4. Subscription to the Fund
5. Subscription to the Fund of Clients registered outside the Republic
6. Withdrawal of member
7. Covered clients

PART III CAPITAL AND RESOURCES OF THE FUND – MEMBER CONTRIBUTIONS

8. Capital and property of the Fund
9. Return of share value of a member
10. Resources of the Fund
11. Initial contribution of members
12. Ordinary annual contribution of members
13. Cessation of obligation for payment of contribution by members
14. Extraordinary supplementary contribution of members
15. Initial and annual ordinary contribution of new members and special contribution of old members
16. Borrowing
17. Insurance cover

PART IV INVESTOR INFORMATION

18. Investor Information
19. Dissemination of prospectuses by members of the Fund
20. Prohibition of advertising
21. Information to clients by IFs which do not subscribe to the Fund

PART V COMPENSATION OF COVERED CLIENTS AND PAYMENT FORMALITIES

22. Failure of a member of the Fund to fulfill its obligations toward investors
23. Conditions for the initiation of the compensation payment procedure by the Fund
24. Procedure relating to the invitation of covered clients to submit applications
25. Interruption of deadline for the submission of applications
26. Contents of compensation applications submitted to the Fund
27. Procedure relating to the recording and evaluation of the alleged compensation claims
28. Decision of the Administrative Committee on submitted applications
29. Unjustifiably paid compensation
30. Determining the amount of paid compensation
31. Joint account co-beneficiaries
32. Valuation of claims of covered clients and procedure of announcement
33. Deadline and procedure relating to the payment of compensation
34. Effects of payment of compensation

PART VI ADMINISTRATION OF THE FUND

35. Administration of the Fund
36. Composition of Administrative Committee
37. Election of President, Vice President and Treasurer of the Administrative Committee
38. Convening of Administrative Committee meetings
39. Replacement of members of the Administrative Committee due to unjustified absence
40. Quorum and decision-making by the Administrative Committee
41. Remuneration of the Administrative Committee
42. Disqualification of members of the Administrative Committee
43. Replacement of deceased or resigned members
44. Liability of members of the Administrative Committee
45. Interpretation provision

PART VII GENERAL MEETING, ANNUAL ACCOUNTS AND AUDIT OF THE FUND

46. Convening of General Meeting
47. Quorum
48. Decision-making
49. Financial year of the Fund
50. Ordinary audit of the financial management and the annual accounts of the Fund
51. Annual accounts
52. Investment policy of the Fund – placement of available funds
53. Extraordinary audit if the Fund

PART VIII COMPETENCE TO IMPOSE SANCTIONS

- 54. Imposition of sanctions by the Securities and Exchange Commission
- 55. 55. Non-fulfillment of obligations of a member towards the Fund
- 56. Expulsion of member
- 57. Suspension and revocation of authorization to operate
- 58. Reacquisition of membership status to the Fund
- 59. Entry into force

SCHEDULES

FIRST SCHEDULE: Eligible funds and financial instruments of clients

SECOND SCHEDULE: Non-covered clients

THIRD SCHEDULE: Preconditions for the return of monies to the members of the Fund

Official Gazette of the Republic of Cyprus, Schedule Three (I): 30.4.2004, 4.6.2004.

The Cyprus Securities and Exchange Commission, in exercising the powers conferred by Articles 64 and 155 of the Investment Services and Activities and Regulated Markets Laws of 2007, issues the following Directive in replacement of the Regulations for the Establishment and Operation of the CIF Client Compensation Fund.

PART I
INTRODUCTORY PROVISIONS

Short Title	1. This Directive shall be referred to as the Investor Compensation Fund Directive
Interpretation	2. (1) In this Directive, unless the context otherwise indicates: 'Claimant' shall mean the investor-client of a member of the Fund who submits to the Fund an application for the payment of compensation, as defined in Part V; 'Liquidation procedure' shall mean the liquidation procedure as defined in Part V of the Companies Law, and includes all collective measures which govern the operation of the member of the Fund and entail the prohibition or limitation of the power to dispose of assets of a Member of the Fund;
Cap. 113 9 of 1968 76 of 1977 17 of 1979 105 of 1985 198 of 1986 19 of 1990 41(I) of 1997 15(I) of 1995 21(I) of 1997 82(I) of 1999 149(I) of 1999 2(I) of 2000 135(I) of 2000 15(I) of 2000 76(I) of 2001 70(I) of 2003 167(I) of 2003 92(I) of 2004 24(I) of 2005 129(I) of 2005 130(I) of 2005 98(I) of 2006 124(I) of 2006 70(I) of 2007 71(I) of 2007 131(I) of 2007 186(I) of 2007 87(I) of 2008 41(I) of 2009 49(I) of 2009 99(I) of 2009 42(I) of 2010 60(I) of 2010 88(I) of 2010 53(I) of 2010 117(I) of 2011 145(I) of 2011 157(I) of 2011 198(I) of 2011 64(I) of 2012 98(I) of 2012 190(I) of 2012 207(I) of 2012 6(I) of 2013 90(I) of 2013 74(I) of 2014 75(I) of 2014 18(I) of 2015 62(I) of 2015 63(I) of 2015	
Second Schedule	'Professional investor' shall mean the persons specified in the Second Schedule; 'Investor' shall mean the natural person or legal entity or the union of persons or group of assets devoid of legal personality who are clients of a Fund member; 'Securities and Exchange Commission' or 'Commission' shall mean the legal person of public

73(I) of 2009
5(I) of 2012
65(I) of 2014.

law governed by the Cyprus Securities and Exchange Commission Law;

'covered client' shall mean the client of a Fund member, who is covered by the Fund for claims against the Fund member, arising from the covered services which are provided by the said Fund member;

'Fund member' shall mean a CIF or an IF which participates in the Fund

Second Schedule

'Non-professional investor' shall mean an investor who is not a professional;

114(I) of 2007
106(I) of 2009
141(I) of 2012
154(I) of 2012
193(I) of 2014

'Law' shall mean the Investment Services and Activities and Regulated Markets Laws of 2007;

'Fund' or, synonymously, 'I.C.F. of Clients of IFs' or 'I.C.F.' shall mean the Investors Compensation Fund of clients of CIFs who are Fund members, established pursuant to article 59(1) and (2) of the Law, and whose powers and functions are regulated by the provisions of the Law and this Directive.

- (2) Without prejudice to the provisions of paragraph (1), any terms, which are used in these Regulations and are not otherwise interpreted, shall bear the meaning attributed thereto by the Law
- (3) Any reference in this Directive to a Paragraph, is a reference to a Paragraph of the present Directive, and any reference to a subparagraph is a reference to a subparagraph of a Paragraph of the present Directive.

PART II

OBJECT, MEMBERS AND SCOPE OF APPLICATION OF THE FUND

Object of the Fund

3. (1) Subject to the provisions of Part VII of the Law and of Paragraphs 22 and 23, the object of the Fund is to secure the claims of the covered clients against the Fund members through the payment of compensation, provided that at least one of the following preconditions is fulfilled.
 - (a) The Securities and Exchange Commission has determined by Resolution that an IF, which has subscribed to the Fund, is unable, at present, to meet such of its duties as arise from its investor-clients' claims in connection with the provision of investment services or the ancillary service of paragraph 1 of Part II of the Third Schedule of the Law, provided that such inability is directly related to its financial circumstances in respect of which there is no foreseeable realistic prospect of improvement in the near future, or
 - (b) a court has, on reasonable grounds directly related to the financial circumstances of an IF which has subscribed to the Fund, issued a ruling which has the effect of suspending the investors ability to lodge claims against the said IF.
- (2) The Fund shall pay no compensation in respect of claims arising out of transactions involving individuals convicted of a criminal offense offence for the said transactions, pursuant to the Prevention and Suppression of Money Laundering Activities Law of 2007.
- (3) The Fund shall compensate all investor-clients of any of its members established in the Republic in respect of claims arising out of the investment services they provide as well as the ancillary service of paragraph 1 of Part II of the Third Schedule of the Law, including the clients of branches of Fund members established in Member-States.
- (4) The Fund shall also compensate investors to whom investment services or the ancillary service of paragraph 1 of Part II of the Third Schedule of the Law have been provided, either through a branch of an IF which, albeit not established within the territory of the Republic, has a place of business therein and has subscribed to the Fund or through an IF which, albeit having no place of business in the Republic, nevertheless provides the said services therein on a cross-border basis, pursuant to the conditions of subsection (1), properly applied, the Regulations issued on the powers conferred pursuant to subsection (3) of Article 53 and to any special subscription conditions thereof to the ICF.
- (5) The amount of compensation toward investor-clients of Fund members shall be up to a maximum amount of twenty thousand Euro ((€20.000) and the said coverage applies to the total amount of claims of an investor toward a Fund

5

member, irrespective of the number of accounts, currency and place of provision of the service. In the case of a joint investment operation, the part of the claim attributable to each investor is taken into account:

It is provided that, for the purposes of the present subsection, joint investment operation means an investment service or the ancillary service of paragraph 1 of Part II of the Third Schedule of the Law which is carried out on behalf of two or more beneficiaries, and generally persons who have a right which may be exercised upon the signature of one or more such persons.

- (6) The calculation of the amount of an investor's claim is carried out in accordance with the set-off regulations, which may be determined or specified by way of directives of the Securities and Exchange Commission, issued pursuant to article 64 of the Law, which are applied for the assessment - on the date of issuance of a Commission resolution or of the issuance of the court ruling in accordance to subparagraph (1) of the present paragraph - of the amount of capital or of the value of the financial instruments belonging to the investor-client which the IF is unable to dispense.
- (7) Subject to the provisions of the above subparagraphs (1) to (6), the compensation from the Fund presupposes the existence of a reasonable claim from the client toward the Fund member, which arises from a covered service offered by the Fund member to the said client.
- Subscription of CIFs to the Fund
4. (1) Subject to the provisions of section 58 of the Law, CIFs and other IIs which are not banks subscribe to the Fund.
- (2) CIFs must submit an application for subscription to the Fund in order to obtain membership status within two months from being granted authorization to operate by the Securities and Exchange Commission, pursuant to section 6 of the Law and, in any case, must have subscribed to the Fund before they begin to provide covered services.
- Subscription to the Fund of Clients registered outside the Republic
5. (1) Subject to the provisions of sections 58 and 78(7) of the Law and of Paragraph 4 IIs registered in a third country that maintain a branch in the Republic or provide investment and/or ancillary services in the Republic on a cross-border basis, must subscribe to the Fund on a compulsory basis, where no cover which is at least equivalent to that prescribed in this Directive is provided to the covered clients of the said IIs.
- (2) The subscription of the precondition of subparagraph (1) is ascertained by the Securities and Exchange Commission, following the submission of a relevant request, as per the procedure of section 78 of the Law regarding the establishment of a branch, or the procedure of section 80 of the Law regarding the provision of investment or ancillary services under section 80 of the Law by a CIF which has obtained a license to operate and is regulated by the competent authority of another Member-State, as the case may be.
- Withdrawal of member
6. (1) Subject to the provisions of Paragraphs 55 and 56, in the event that a CIF which is a Fund member ceases to provide investment services, or, in the case of a Fund member which is not a CIF, such Fund member ceases to provide investment services in the Republic, the said Fund member may submit to the Fund an application for its withdrawal and loss of membership status to the Fund.
- (2) The Fund member notifies its application under subparagraph (1) to the Securities and Exchange Commission.
- (3) The Fund approves the application provided the consent of the Securities and Exchange Commission is granted, where the preconditions set out in this Directive are fulfilled.
- (4) The Fund's ruling for membership status loss by a Fund Member is published in at least three newspapers with national coverage.
- (5) Following the publication of the ruling as per subparagraph (4), the procedure of paragraph 9 is initiated for the return of the value of the Fund member's share:

It is provided that the loss of membership status does not mean the loss of rights of clients to receive compensation, while the preconditions for compensation pursuant to this Directive are fulfilled; neither does such loss obstruct the commencement of the compensation procedure of covered clients in accordance to Part V and the provisions of this Directive continue to apply accordingly. An IF which lost its membership status is considered a Fund member for the purposes of subparagraph (8) of Paragraph 9.

Covered clients
Second Schedule

188(I) of 2007
58(I) of 2010
80(I) of 2012
192(I) of 2012
101(I) of 2013
184(I) of 2014

7. (1) The Fund covers the clients of its members, excluding those set out in the Second Schedule.
- (2) Subject to the provisions of subparagraphs (1) to (4) of Paragraph 3, if there are pending criminal proceedings for the legalisation of proceeds from illegal acts or activities under the provisions of the Prevention and Suppression of Money Laundering and Terrorist Financing Law of 2007 against a client-investor, the Fund suspends the payment of compensation until the completion of such proceedings.

PART III

CAPITAL AND RESOURCES OF THE FUND – CONTRIBUTIONS OF MEMBERS

Capital and property
of the Fund

8. (1) The Fund's capital, on the day this Directive is put into force shall comprise of initial contributions, as well as ordinary and extraordinary supplementary contributions made by the members of the Fund up to the aforementioned date.
- (2) The capital of the Fund increases by the initial contributions of its new members, as well as the ordinary annual and extraordinary supplementary contributions of its members at the time.
- (3) The capital of the Fund consists of the individual shares of its members, which correspond to each member's percentage of subscription to the net assets of the Fund, provided that each member possesses one individual share:
It is provided that, for the purpose of facilitating the computation of the value of the individual shares, the assets of the Fund may be sub-divided into shares or fractions of shares of equal value, from which the individual shares of the members of the Fund are formed.
- (4) With regard to new contributions, for the purpose of computing the value of the individual share of each member, the value of the Fund is calculated on the basis of its net assets as determined in its immediately prior balance-sheet or in the immediately prior official valuation of its net assets, as approved by the General Meeting of its members in accordance with Paragraph 48:

It is provided that, in calculating the value of the individual share of each member of the Fund, the value of the fixed reserve, as defined pursuant to subparagraph (2) of Paragraph 10, is not taken into consideration.

- (5) The property of the Fund and the individual shares of its members may not be subject to confiscation by creditors of the Fund's members:

It is provided that, the confiscation of the individual shares is allowed only when these become payable to the members of the Fund.

Return of share value
of a member

9. (1) Subject to the provisions of section 17 of the Law, in the event that a member of the Fund lost, for any reason, its membership status, it shall receive, in cash, the value of its share based on the valuation in force at the time of loss of such membership status:

It is provided that, the date of publication of the expulsion of the member, pursuant to subparagraph (3) of Paragraph 56, is considered the date of loss of membership.

- (2) The payment of the value of the share of the member is made in the first calendar month after one year from the loss of membership status has lapsed.
- (3) The following are set-off against the member's claim for payment of the refundable value of its share:
- (a) the compensation paid by the Fund to covered clients of the member; and

7

- (b) any other claims by the Fund against the member, including due contributions of the Fund member or other monies paid or to be paid by the Fund for the fulfillment of the member's obligations:

It is provided that, in calculating the amount which is payable to the member, under this subparagraph, the compensation paid to covered clients of the member after the loss of its membership status is also taken into consideration, so long as the said compensation concerns claims for covered services which had been provided at a time when the member still held membership status.

- (4) The set-off defined in subparagraph (3) applies even if a liquidation procedure against the member has been initiated.
- (5) The Fund may also decide to pay the member the value of its share or part thereof before one year from the loss of membership status has elapsed, so long as, at the discretion of the Administrative Committee, no claims by the Fund against the member shall arise, before the timeframe of payment defined in subparagraph (2).
- (6) The Fund may also subject the payment defined in paragraph (5) to the production, by the member, of a bank letter of guarantee or other guarantee admissible by the Fund, which secures payment to the Fund of the amount paid to the member before the date referred to in subparagraph (2).
- (7) (a) The Fund withholds the amounts which correspond to the amount of the probable claims which may arise from-
- (i) A compensation claim submitted during the year following the loss of membership status;
- (ii) A compensation claim submitted before the loss of membership status
- (b) The said amounts are withheld until a final decision on the case is reached and, depending on the outcome, the Fund grants them either to their beneficiary claimants or to the member of the Fund which lost its membership status
- (c) Subject to the provisions of subparagraphs (3) and (4), the withheld amounts are considered as having been set off with the member's claim in determining the return of the value of its individual share, on the condition of the issue of the final court ruling which recognizes the absence of relevant obligation by the member of the Fund against the clients referred to in subparagraph (1).
- (8) The Fund does not compensate covered clients who submit to it an application for compensation, for claims against an IF which was a member of the Fund with regard to covered services, after one year following the IF's loss of membership status has elapsed.
- (9) The Securities and Exchange Commission may, with the issue of Directives, determine the minimum necessary content of the bank letter of guarantee, the type of guarantee as well as its content.

Resources of the Fund

10. (1) The resources of the Fund consist of:
- (a) Initial, ordinary annual and extraordinary supplementary contributions of its members, as prescribed in this Directive;
- (b) Proceeds from the investment of the Fund's available funds, as defined specifically in Paragraph 52;
- (c) Proceeds of the Fund from donations or *ex gratia*.
- (2) The part of the Fund's assets which derives from the sources under point (c) of subparagraph (1) forms the fixed reserve of the Fund which neither increases the contributions of each member nor is calculated in the shares of each member.
- (3) The contributions of the Fund's members are paid into an account held with a bank which operates in the Republic and which the Fund communicates to its members upon special request by the latter..

Initial contribution of members

11. (1) To obtain membership status to the Fund, candidate members must pay an initial contribution as defined in subparagraphs (2) and (3).
- (2) The amount of the initial contribution of each member, which is paid cash in a lump sum, is fixed per covered services which the member of the Fund is entitled to provide, as follows:

8

- (a) Twenty two thousand, two hundred and twelve Euro (€22.212) for the investment services of Paragraphs (1) and (2) of Part I of the Third Schedule of the Law:

It is provided that, if a member provides only the investment service of paragraph (2) of Part I of the Third Schedule of the Law, the amount payable to the Fund is thirteen thousand, six hundred and sixty nine Euro (€13.669);

- (b) Seventeen thousand eighty six Euro (€17.086) for the investment service of Paragraph (3) of Part I of the Third Schedule of the Law;
- (c) Twenty five thousand, six hundred twenty nine Euro (€25.629) for the investment service of Paragraph (4) of Part I of the Third Schedule of the Law;
- (d) Seventeen thousand eighty six Euro (€17.086) for the investment service of Paragraph (6) of Part I of the Third Schedule of the Law;
- (e) Twenty thousand, five hundred and three Euro (€20.503) for the ancillary service of Paragraph (1) of Part II of the Third Schedule of the Law;

- (3) Membership status to the Fund is not obtained before full payment of the initial contribution pursuant to this Directive.

Ordinary annual contribution of members.

12. (1) The ordinary annual contribution of each member of the Fund amounts to a percentage of up to one per mille (10/100) of the eligible funds and financial instruments of the member's clients, as these are defined in the First Schedule, and is paid between 16 and 31 March of each year, calculated on the basis of the eligible funds and financial instruments of the immediately prior year.

First Schedule.

- (2) The amount of the initial contribution of each member is determined upon decision of the Fund based on the percentage referred to in subparagraph (1), subject to the provisions of Paragraph 13 and in accordance with the evidence produced by each member until 31 March of each year regarding the eligible funds and financial instruments.
- (3) The decision referred to in subparagraph (2) is issued and announced to the members of the Fund, by 30 April of each year, at the latest.
- (4) The Fund may allow, by the decision taken under subparagraph (2), in lieu of the payment in cash, the production by the member to the Fund of an unconditional bank letter of guarantee on first demand, the precise content of which is determined with the said decision:

It is provided that, this arrangement applies each year to all the members of the Fund in a uniform manner.

- (5) The Fund has free access to the accounts of each of its members, as well as to the books kept in accordance with the legislation in force in the Republic concerning the verification of the accuracy of the evidence provided to it by its members, and collaborates, for this purpose, with the Securities and Exchange Commission.
- (6) The Securities and Exchange Commission may, with the issue of Directives, regulate any special matter pertaining to the implementation of this Paragraph.

Cessation of obligation for payment of the annual ordinary contribution by the members.

13. (1) In case the individual share of a member of the Fund, as is valued at the end of each year, exceeds by half per cent (0,5%) the total of the eligible funds and financial instruments of the member during the immediately prior year, the said member is not obliged to pay an annual ordinary contribution which would lead to the increase of its individual share beyond the said amount, or as the case may be, is obliged to pay a lesser contribution:

It is provided that in calculating the above threshold, the annual ordinary contribution payable in that year is also taken into consideration:

It is further provided that in calculating the amount payable by each member of the Fund, the bank letters of guarantee referred to in subparagraph (4) of Paragraph 12 are also taken into consideration.

First Schedule

- (2) With the consent of the Securities and Exchange Commission, pursuant to subparagraph (3), the Fund may limit the obligation for payment of the annual ordinary contribution of those of its members for whom the percentage of the individual share is lower than the amount defined in subparagraph (1) of Paragraph 12, so long as an insurance cover of the Fund or of its members is attained, such as to secure an insurance compensation which is at least equal to the amount required for reaching - in relation to the existing assets of the Fund at the time - the amount which corresponds to one per cent (1%) of the total of the

eligible funds and financial instruments of all the members of the Fund during the immediately prior year, as defined specifically in the First Schedule.

- (3) In order to give its consent on the limitation of the obligation for payment of the annual ordinary contribution in accordance with subparagraph (2), the Securities and Exchange Commission examines mainly the terms of the insurance policy which pertain to the preconditions for payment of the premium and in particular those concerning the object covered by the insurance.
- (4) While the value of the individual share of a member of the Fund, as is valued at the end of each calendar year, exceeds one per cent (1%) of the average of the eligible funds and financial instruments of the member, during the immediately prior two years, the amount in excess is returned to the said member, in accordance with the preconditions and the procedure defined in the Third Schedule.
- Third Schedule
- (5) The Securities and Exchange Commission may, with the issue of Directives, regulate any special matter pertaining to the implementation of this Paragraph.
- Extraordinary supplementary contribution of members
14. (1) The Securities and Exchange Commission may, with the issue of Directives:
- (a) Call upon the members of the Fund to pay an extraordinary supplementary contribution, if it deems that the existing means for the payment of compensation are inadequate, particularly in the event of a liquidation procedure of a member of the Fund;
- (b) Fix the amount of the extraordinary supplementary contribution to be paid by the members of the Fund so that the individual share of each such member attains a specific percentage of the eligible funds and financial instruments of the member during the last calendar year, as defined specifically in the First Schedule:
It is provided that, without prejudice to subparagraph (d), the amount and the mode of calculation of this percentage are determined in a uniform manner for all the members of the Fund;
- (c) Determine the manner, the deadline and other formalities relating to the payment of the extraordinary supplementary contribution;
- (d) Set a maximum limit for the percentage payable by each member of the Fund in relation to its eligible funds and financial instruments during the immediately prior year:

It is provided that in determining the amount of the extraordinary supplementary contribution, the manner and the deadline relating to its payment, the Securities and Exchange Commission takes into consideration the reasonable interests of the members of the Fund.
- First Schedule.
- (2) The Fund communicates to its members the Directive issued pursuant to subparagraph (1) and informs each member on the amount of its due extraordinary supplementary contribution.
- (3) Upon suggestion by the Fund, the Securities and Exchange Commission may extend by up to one year the deadline for the payment of the contribution of a specific member of the Fund, following a relevant request, if it deems, on the basis of the evidence produced for this purpose by the said member, that the payment of the contribution would lead the specific member to failure to fulfill its obligations.
- (4) Upon suggestion by the Fund, the Securities and Exchange Commission may decide that also in the case of the extraordinary supplementary contribution, the obligation of the members of the Fund may be fulfilled wholly or partly, in lieu of a cash payment:
- (a) with an unconditional bank letter of guarantee on first demand in their favour or in favour of the Fund, the exact content of which may be specified by the Securities and Exchange Commission with the aforesaid decision; or
- (b) with an insurance cover of the Fund or of its members, which secures an insurance compensation at least equal to the amount required for attaining the amount defined in paragraph (2).
- Initial and annual ordinary contribution of new members and special contribution
15. (1) Each new member of the Fund is obliged to pay the initial contribution, as defined in subparagraph (2) of Paragraph 11.

of old members.

- First Schedule
- (2) To determine the amount of the annual ordinary contribution due to the new member, the criteria of Paragraph 12 in conjunction with the First Schedule apply accordingly,
 - (3) Whenever a member of the Fund obtains, in the course of its operation, authorization to provide one additional service from the services listed in subparagraph (2) of Paragraph 11, in addition to those entitled to provide up until that time the said member is obliged to pay an additional contribution to the Fund equal to the amount which corresponds to that specified in accordance with the provisions of subparagraph (2) of Paragraph 11 and which concerns the new service it commences to provide.
 - (4) The payment of the additional contribution as defined in subparagraph (3) must be made to full before the member begins to provide the new service.

- Borrowing
16. (1) If the Fund deems that its liquid assets do not suffice for the payment of the due or likely to occur compensation to the covered clients, it may contract loans or other credits with banks in the Republic or abroad;

It is provided that the Fund communicates the reasons which impose such borrowing to the Minister of Finance and to the Securities and Exchange Commission.

- (2) In the case of paragraph (1), the Fund calls upon its members, within one month from contracting the loan or the credit agreement, to pay an extraordinary supplementary contribution, of a total amount equal to the received loan or credit, subject, with regard to the determination of the proportion of each member's contribution, to the criteria defined in Paragraph 14.
- (3) The Fund determines and communicates to its members, the mode, the deadline and any other formalities relating to the payment of the extraordinary supplementary contribution, as defined in paragraph (2).
- (4) For the purposes of this Paragraph, the provisions of Paragraph 14 shall apply *mutatis mutandis*.

- Insurance cover
17. (1) The Fund may enter into an insurance policy for the insurance cover of its obligation, wholly or partly, against the covered clients, and the premiums paid for this purpose shall be included in the administration expenses of the Fund.
- (2) The said insurance cover may be provided by one or more insurance companies duly established in the Republic or in a Member State.
 - (3) The Fund notifies the Securities and Exchange Commission of all insurance policies entered into in the framework of this Paragraph, as well as any amendment thereof including their dissolution.

PART IV INVESTOR INFORMATION

- Investor Information
18. (1) The members of the Fund inform their investor-clients on:
- (a) the cover provided by the Fund;
 - (b) the covered clients;
 - (c) the maximum amount of the compensation payable to the clients for the total of their claims;
 - (d) the preconditions and formalities for the payment of the compensation, in both the Greek and English languages.
- (2) The information of the investors takes place mainly with the free dissemination at the headquarters and in the branches of the member of the Fund of relevant detailed prospectuses in both the Greek and English languages, drawn in an understandable and clear manner, as well as the publication of the said information on the website of each member of the Fund on the Internet.
- (3) Upon relevant request by the covered clients, the said member of the Fund is obliged to provide additional information on the formalities and preconditions relating to the payment of compensation.

- Dissemination of prospectuses by
19. Subject to the provisions of the Law, the members of the Fund see to the availability of an adequate number of prospectuses both at their headquarters and branches, as well

- the members of the Fund.
- as at the offices of their representatives or other persons cooperating with such members.
- Prohibition of advertising.
20. The members of the Fund are prohibited from promoting their subscription to the Fund for advertising purposes through advertising leaflets or other messages disseminated in any way, provided that the mere informative reference to such subscription is allowed.
- Information to clients by IFs which do not subscribe to the Fund.
21. IFs which provide services in the Republic and are exempted from the obligation to subscribe to the Fund, inform their investors accordingly and must come to an understanding with the Fund on the most appropriate manner of announcing their subscription to an investor compensation scheme abroad.

PART V

COMPENSATION OF COVERED CLIENTS AND PAYMENT FORMALITIES

- Failure of a member of the Fund to fulfill its obligations toward its investors
22. (1) Subject to the provisions of subparagraphs (1) to (4) of Paragraph 3, the Fund compensates the covered clients for claims arising from the covered services provided by its members, so long as failure by the member to fulfill its obligations has been ascertained, in accordance with the terms and procedure defined in this Part, notwithstanding a relevant obligation by the member of the Fund in accordance with the legislation and the terms which govern its agreement with the covered client and regardless of whether the said obligation of the member of the Fund is based on the agreement or on wrongdoing.
- (2) Failure by a member of the Fund to fulfill its obligations consists of its failure:
- (a) Either to return to its covered clients funds owed to them or funds which belong to them but are held by the member, directly or indirectly, in the framework of the provision by the said member to the said clients of covered services, and which the latter requested the member to return, in exercise of their relevant right;
- (b) Or to hand over to the covered clients financial instruments which belong to them and which the member of the Fund holds, manages or keeps on their account, including the case where the member is responsible for the administrative management of the said financial instruments.
- Preconditions for the initiation of the compensation payment procedure by the Fund.
23. (1) The Fund initiates the compensation payment procedure when at least one of the preconditions referred to in subparagraph (1) of Paragraph 3 is fulfilled.
- (2) The fulfillment of the precondition referred to in paragraph (a) of subparagraph (1) of Paragraph (3) is presumed:
- (a) If the member of the Fund submits to the Fund or to the Securities and Exchange Commission a written statement declaring its failure to fulfill its obligations toward its clients;
- (b) If the member of the Fund files an application for liquidation in accordance with the provisions of Part V of the Companies Law, or
- (c) If the Securities and Exchange Commission has revoked or suspended the member's authorization to provide investment services in accordance with sections 25 and 26 of the Law and ascertains that the member of the Fund is not expected to be in a position to fulfill its obligations toward its clients in the near future, for reasons which do not consist a temporary lack of liquidity which can be dealt with immediately.
- (3) The Securities and Exchange Commission decides on whether the case defined in point (a) of subparagraph (1) of Paragraph 3 applies, either *ex officio* or upon request submitted to it by a covered client of a member of the Fund, the Fund or other competent supervisory authority and any other person with legitimate interest:
- It is provided that, subject to point (a) of subparagraph (5) of the present Paragraph, the Securities and Exchange Commission issues its decision on the commencement of the compensation payment procedure by the Fund within a reasonable timeframe upon ascertaining the fulfillment of the preconditions for the issue of such decision, and publishes the said decision in the Official Gazette of the Republic as well as on its website on the Internet.
- (4) In order to reach a decision pursuant to subparagraph (3), the Securities and Exchange Commission may request by the member of the Fund to set out its views within a short deadline so fixed, which cannot be less than three working days from the date of the invitation to set out such views.

- (5) (a) The Securities and Exchange Commission may extend, by up to three months, the issue of its decision provided for in point (a) of subparagraph (1) of Paragraph 3 on the commencement of the compensation payment procedure by the Fund.
- (b) The extension is decided upon in case of lack of certainty on whether the failure by the member of the Fund to fulfill its obligations is reversible or not and, in particular, when such failure is mostly due to a liquidity problem faced by the member of the Fund, and which is reasonably expected to be settled.
- (c) The members of the Fund are entitled to request the Securities and Exchange Commission to issue a decision on the extension of the deadline in accordance with point (a) of the present subparagraph, explaining the reasons for the submission of such request.
- (d) The Securities and Exchange Commission takes its decision in accordance with point (a) of the present subparagraph considering the guarantee of the smooth operation of the capital market and upon weighting the interests of the clients and the member of the Fund.
- (6) In the case of subparagraph (5), the Securities and Exchange Commission may prohibit the said member of the Fund from disposing of specific assets, with the objective of securing the interests of the clients and in general its lenders, or take, at its discretion, other appropriate measures for the attainment of this objective:

Provided that the adoption of the aforesaid measures may also be requested by the member of the Fund itself.

Procedure relating to the invitation of covered clients to submit applications

24. (1) Upon issuance of a decision by the Court in accordance with point (b) of subparagraph (1) of Paragraph 3, or by the Securities and Exchange Commission in accordance with point (a) of subparagraph (1) of Paragraph 3, on the commencement of the compensation payment process, the Fund publishes in at least three newspapers of national coverage, an invitation to the covered clients to make their claims against the member of the Fund arising from covered services, designating the procedure for the submission of the relevant applications, the deadline for their submission and their content, as defined specifically in Part V.
- (2) The publication provided for in subparagraph (1) contains at least:
- (a) the name and address of the headquarters of the member of the Fund, to whom the covered client compensation process has been activated through the Fund;
- (b) the deadline for the submission of compensation applications, which cannot be less than five months and greater than nine months from the last publication referred to in subparagraph (1);
- (c) the mode and address of submission of applications; and
- (d) the address at which investors may be informed about the exact content of the applications to be submitted, and get the relevant form provided by the Fund.
- (3) The Securities and Exchange Commission, the CSE and any interested members enter the publication provided for in subparagraph (1) on their website during the entire deadline for the submission of applications:
- It is provided, that non-compliance on behalf of the above persons with the obligation of the present paragraph shall not result in the nullity of the process; it shall only result in the imposition of sanctions in accordance with section 66 of the Law.
- (4) In exceptional cases, the Fund, with a notice subject to the publicity conditions as defined in subparagraph (2), may extend the deadline for the submission of compensation applications up to three months.

Interruption of deadline for submission of applications.

25. (1) Subject to the provisions of subparagraph (4), in case a covered client, not being its fault, was neither informed about the invitation to submit compensation applications nor in a position to submit within the deadline this application, the deadline provided for in Paragraph 24 is interrupted:
- Provided that an interruption of the deadline arises in case of an event of force majeure, as long as it has been proved that it prevented the keeping of the deadline for the submission of compensation applications or the collection and submission of the required information..
- (2) Indications that the covered client has an impediment for which he is not

13

responsible and which forms a reason for the interruption of the deadline for the submission of a compensation application include especially –

- (a) proved absence of the covered client abroad for a period which includes at least half of the deadline for the submission of a timely application;
 - (b) illness confirmed by a doctor that it forms a serious impediment for the submission of an application for a period which includes at least half of the deadline for the submission of a timely application; or
 - (c) his stay in a correctional institution for a period which includes at least half of the deadline for the submission of a timely application.
- (3) Insofar as the deadline referred to in Paragraph 24 has been interrupted in accordance with subparagraphs (1) and (2), this deadline starts again from the day the reason of its interruption ceases to exist.
 - (4) Subject to the provisions of subparagraph (8) of Paragraph 9, a covered client for whom there exists a reason to interrupt the deadline, may not submit a compensation application after eight months from the expiration of the deadline of paragraph (1) of Paragraph 24.
 - (5) A covered client who submits an application late to the Fund for the payment of compensation in accordance with subparagraph (1), is obliged to submit, in addition to the information forming the necessary minimum content of the application in accordance with Paragraph 26, a solemn declaration stating the reason for which he was not in a position to claim compensation in time attaching the necessary supporting evidence to prove his allegations.

Content of compensation applications submitted to the Fund.

- 26. (1) The compensation applications of covered clients with which they make their claims against a member of the Fund are submitted to the Fund in writing.
- (2) The compensation applications must include–
 - (a) the name of the claimant;
 - (b) the address, telephone and fax numbers as well as any email address of the claimant;
 - (c) the client code that the claimant had for the member of the Fund;
 - (d) the particulars of the covered services agreement between the Fund and the claimant;
 - (e) the type and amount of the alleged claims of the claimant; and
 - (f) the particulars from which the alleged claims of the claimant and their amount are derived.
- (3) Subject to the provisions of subparagraph (2), the Fund may ask for more information included in the compensation application, which it communicates with its publication in at least three newspapers of national coverage as well as in the Official Gazette of the Republic, and puts a catalogue with this information at the disposal of investors, at its offices and/or at the offices of the member of the Fund.

Procedure relating to the recording and evaluation of the alleged compensation claims

- 27. (1) The Fund designates at least one qualified auditor and at least one lawyer with knowledge on capital market issues, who after having checked initially the prerequisites of subparagraphs (1) and (2) of Paragraph 28, they evaluate the claims submitted to the Fund and recommend to the Administrative Committee their acceptance in total or in part or their rejection.
- (2) In case of disagreement between the persons referred to in subparagraph (1), each one them submits a separate recommendation.
- (3) The remuneration of the persons referred to in subparagraph (1) is agreed between the Fund and these persons and burdens the member of the Fund, and, if necessary, is paid by the Fund.
- (4) The persons defined in subparagraph (1) in order to evaluate the applications –
 - (a) ask from the member of the Fund to express its opinion about the grounds of the claims alleged by the claimants and, in case of doubt, to present the relevant supporting documents; and
 - (b) evaluate, based on the information they have, the applications,

determining the amount of the compensation for each claimant.

- (5) The persons referred to in subparagraph (1) have full access to the books kept by the member of the Fund, in order to accomplish their work, and they are obliged to exhibit confidentiality against any third party as to the information coming to their knowledge in the exercise of their duties:

It is provided that the said obligation of confidentiality is disregarded in order to render possible the exercise of their duties and also as far as the Securities and Exchange Commission is concerned.

Decision of the Administrative Committee on submitted applications

28. (1) Upon submission of the applications in accordance with Paragraph 26, the Administrative Committee by virtue of Paragraph 35 has control especially if –

- (a) the claimant falls within the category of covered clients;
- (b) the application was timely submitted;
- (c) the case of subsection (2) of Paragraph 3 applies; and
- (d) the conditions of the Law and of the present Directive for the valid submission of compensation applications are fulfilled.

- (2) The Administrative Committee rejects the application in case the claimant does not fulfill the conditions of points (a) to (d) above, or, if at the Administrative Committee's discretion, there exists at least one of the following reasons:

- (a) The claimant used fraudulent means in order to secure the payment of compensation by the Fund, especially if it knowingly submitted false evidence;
- (b) the damage suffered by the claimant substantially derived from concurrent negligence or offence on its behalf in relation to the damage it suffered and to its underlying cause, in accordance with subparagraph (9) of paragraph (1) of the Second Schedule.

Second Schedule.

- (3) The Administrative Committee during the examination of the applications takes into consideration the recommendations of the persons defined in subparagraph (1) of Paragraph 27 and decides on the applications submitted to the Fund determining the amount of the compensations for each covered client-claimant.

Unjustifiably paid compensation.

29. The Fund may demand at any time from a covered client to return the compensation paid to it, if it finds out *a posteriori* that there was a reason to reject its application in accordance with the present Directive.

Fixing of the amount of payable compensation

30. (1) To ascertain the claims of a claimant against a member of the Fund, as well as any counterclaims of the member of the claimant, the books kept and the particulars issued by the member of the Fund as well as the supporting evidence produced by the claimant are taken into consideration.

- (2) The amount of the compensation payable to each covered client is calculated in accordance with the legal and contractual terms governing the relation of the covered client with the member of the Fund, subject to the set-off rules applied for the calculation of the claims between the covered client and the member of the Fund.

- (3) The valuation of the financial instruments pertaining to the compensation payable to the covered client in accordance with subparagraph (2) is carried out based on their value at the day -

- (a) of publication of the court ruling of point (b) of subparagraph (1) of Paragraph 3; or
- (b) of publication of the decision of the Securities and Exchange Commission of point (a) of subparagraph (1) of Paragraph 3.

- (4) Subject to the provisions of subparagraph (6), the calculation of the payable compensation derives from the sum of total established claims of the covered client against the member of the Fund, arising from all covered services provided by the member and regardless of the number of accounts, of which it is a beneficiary, the currency and place of provision of these services.

- (5) Insofar as the amount of the claim determined under this Paragraph exceeds the amount of twenty thousand Euros (€20.000), the claimant receives as compensation the lump sum of the amount of twenty thousand Euros (€20.000):

- (6) (a) Insofar as a member of the Fund provides services to its clients through a branch situated in a third country, the amount of the maximum compensation payable to the clients of the said branch comes up, per

15

client, to the lump sum paid by any investor compensation scheme in operation in the said third country, without however this amount exceeding the amount fixed in subparagraph (5).

- (b) if in the third country by virtue of sub-paragraph (a) an investor compensation scheme is not in operation, the maximum amount of payable compensation per client of the branch comes up to an amount corresponding to three thousand four hundred and seventeen Euro (€3.417).

Provided that this amount is fixed in the currency of the said third country at the beginning of operation of the branch and it is readjusted on January 1st of every second calendar year following the year during which the immediately previous fixing took place, based on the average exchange rate as fixed by the Central Bank of Cyprus for the currency pertaining to the said country on December 31st of the immediately prior year.

- (7) The members of the Fund take every necessary measure in order to inform the Fund, the Securities and Exchange Commission, as well as the clients of the branch situated in a third country about the maximum amount of compensation payable to the clients of the said branch.
- (8) The Securities and Exchange Commission, with the issue of Directives, may regulate any special matter on the implementation of the present Directive.

Joint account co-beneficiaries.

31. In the case whereby beneficiaries of a Joint Account of a member of the Fund are in their majority covered clients –

- (a) the maximum amount payable to all co-beneficiaries of the account comes up to the amount provided for in subparagraph (5) or, as the case may be, in subparagraph (6) of Paragraph 30; and
- (b) the compensation is fixed on the whole for all co-beneficiaries of the joint account and is divided amongst them, in the way determined in the agreement between the co-beneficiaries and the member of the Fund; otherwise, in the absence of such agreement, it is divided equally amongst them.

Valuation of claims of covered clients and its notification process.

32. (1) Upon completion of the valuation, the Fund -

- (a) issues minutes listing the clients of the member of the Fund which are compensation beneficiaries along with the amount of money each one of them is entitled to receive, and, communicates it to the Securities and Exchange Commission and the member of the Fund within five working days from its issue; and
- (b) communicates to each affected client its finding no later than fifteen days from the issue of the minutes of sub-paragraph (a) determining the total compensation amount this client is entitled to receive.

- (2) The Securities and Exchange Commission, in order to ensure that the provisions of the legislation in force in the Republic are fulfilled during the examination of the applications and the calculation of the amount of the corresponding compensation per covered client, may -

- (a) request from the Fund, the member of the Fund and the claimant to produce information and particulars;
- (b) run any investigation required, implementing the relevant provisions of the Cyprus Securities and Exchange Commission Law of 2009 to 2013, as in force, and especially those provisions enacting the powers of the Securities and Exchange Commission for entry and investigation.

- (3) The claimant to whom the Fund communicates the total compensation amount to which it is entitled, in case it disagrees with the Fund's decision, has the right within ten days from the communication of the decision, to appeal to the Securities and Exchange Commission, justifying sufficiently its alleged claim.

- (4) The Securities and Exchange Commission, in so long as it finds errors or inaccuracies as to the evaluation by the Fund of the applications for the payment of compensation and the fixing of the compensation for each claimant, taking into consideration any memos submitted to it by claimants, may demand from the Fund to correct the payable compensations with a decision communicated to the Fund within forty-five days from the communication to it of the minutes of the compensation beneficiaries in accordance with subparagraph (1) of Paragraph 32.

73(I) of 2009
5(I) of 2012
65(I) of 2014

16

- Deadline and procedure relating to the payment of compensation
33. (1) The Fund is obliged to pay to each covered client-claimant the compensation under Paragraphs 30 to 32 within three months from sending to the Securities and Exchange Commission the minutes with the compensation beneficiaries in accordance with subparagraph (1) of Paragraph 32.
- (2) The payment of the compensation by the Fund is deposited to a bank account of the covered client-claimant designated by the latter in writing to the Fund.
- (3) Every compensation payable to a covered client burdens initially the property of the Fund corresponding to the individual shares of its members and then the assets of the fixed reserve.

- Effects of payment of compensation
34. The payment of any compensation by the Fund entails *ipso jure* subrogation of the Fund to the rights of the compensated covered client-claimant against the member of the Fund for an amount equal to the compensation payable to it.

PART VI
ADMINISTRATION OF THE FUND

- stration of the Fund.
35. (a) The administration of the Fund, which includes its management and representation, is exercised by a five-member Administrative Committee as defined specifically in this Part.
- (b) The Administrative Committee exercises all the powers and duties provided for in these Regulations and represents the Fund in and out of court, while it is competent to decide for every act pertaining to its administration, management of its property and the general pursuit of its object, subject to the provisions of the Law and of the present Directive.

- Composition of Administrative Committee.
36. (1) The five members of the Administrative Committee along with one alternate member for each one of these replacing them in case of absence or impediment, are designated for a three-year term, following a decision of the Minister of Finance published in the Official Gazette of the Republic according to the procedure described in subparagraphs (2) and (3).

Official Gazette of the Republic of Cyprus, Schedule Three (I):
30.4.2004, 4.6
2004.

- (2) (a) The Minister of Finance invites the Securities and Exchange Commission, and the CSE Council in accordance with the provisions of Section 61(2) of the Law, and the Cyprus Stock Exchange Members' Association (CSEMA), or any other agency of the interested parties, within fifteen days from the receipt of the said invitation, to designate –
- (i) one member and his alternate - the Securities and Exchange Commission;
- (ii) one member and his alternate - the CSE Council;
- (b) The General Meeting of the members of the Fund, elects, in accordance with Paragraph 48, two representatives, and their alternates who are proposed by the agencies of the interested parties, as members of the Administrative Committee of the Fund, in accordance with of the provisions of Section 61(3) of the Law.
- (3) The fifth member and his alternate are designated by the Minister of Finance in accordance with the provisions of Section 61(1) of the Law.
- (4) Insofar as the deadline fixed by the Minister of Finance in accordance with subparagraph (2) lapses without effect, the Minister of Finance designates this member of the Administrative Committee.
- (5) The members, in accordance with subparagraph (1), must be of recognized repute and character and have the necessary knowledge on financial and accounting issues as well as on capital market issues in order to exercise their duties.
- (6) The Minister of Finance issues his decision on the appointment of the Administrative Committee no later than ten days from the expiration of the fifteen-day deadline set out for the agencies in accordance with subparagraph (1).

- Election of President, Vice-President and Treasurer of the Administrative Committee.
37. The Administrative Committee elects its President, Vice-President and Treasurer, no later than ten days from the publication in the Official Gazette of the Republic of the decision of the Minister of Finance on its appointment.

- Convening of
38. (1) The Administrative Committee is convened upon invitation of its President or

- Administrative Committee meetings
- Vice-President, in case of impediment of the President, on the day and time determined by him, regularly once every calendar month and extraordinarily whenever the President deems fit.
- (2) The invitation for the convening of the Administrative Committee is communicated to its members at least two working days prior to the meeting and contains the subjects of the agenda; otherwise the decision-making is allowed only when all the members of the Committee are present either in person or through their alternate and no one objects the said decision-making.
- (3) With an application by at least one of the members, the President or Vice-President of the Administrative Committee –
- (a) convenes the Administrative Committee fixing the day of its meeting, which takes place no later than five days from the submission of the relevant application; and
- (b) includes all proposed subjects in the agenda of the first meeting following the submission of the relevant application.
- (4) The Administrative Committee decides on any matter pertaining to the conduct of its meetings and is entitled to allow the presence of other persons during its regular or extraordinary meetings, whenever it is deemed necessary for the accomplishment of its work.
- (5) The Auditor General of the Republic or his representative may be present at the meetings of the Administrative Committee without having the right to vote.
- Replacement of members of the Administrative Committee due to unjustified absence.
39. (1) Insofar as a member of the Administrative Committee is absent without any reason from its meetings for a period greater than three months, the agency that has designated him is obliged to replace him in due time after being informed of this matter:
- It is provided that, the participation in meetings through an alternate is not considered as unjustified absence.
- (2) The President of the Administrative Committee or the Vice-President, as the case may be, is obliged to immediately inform the agency that has designated the member, in case of absence of the member or of his alternate from the meetings of the Administrative Committee for a period greater than three months.
- Quorum and decision-making by the Administrative Committee
40. (1) The Administrative Committee forms a quorum and is validly convened when at least three of its members are present either in person or through their alternates.
- It is provided that, if at any time the number of members of the Administrative Committee is reduced below five by way of termination of tenure of members representing the agencies set out in Section 61(c) of the Law, or if any such member has resigned or is deceased, the remaining members of the Administrative Committee may hold a meeting only for the purpose of convening a General Meeting of the members of the Fund for the election of new representatives or representative, as the case may be.
- (2) The decisions of the Administrative Committee are made with absolute majority of its members present.
- (3) In relation to the discussions and decisions of the Administrative Committee, minutes are kept and recorded in a special minutes book signed by the President, the Vice-President and the other members of the Administrative Committee present in the meeting.
- Quorum and decision-making by the Administrative Committee.
41. Every remuneration or compensation of the members of the Administrative Committee and of their alternates is approved beforehand with a special decision by the Administrative Committee made with a majority of at least four of its members, following the consent of the Minister of Finance.
- Disqualification of members of the Administrative Committee.
42. (1) Any willful act or omission of a member of the Administrative Committee, regular or alternate, which may place the credibility required for the exercise of its work under doubt, may form a cause for the disqualification of the said member from his duties with a decision of the Minister of Finance.
- (2) The disqualified member is replaced by the agency that had designated the member in the manner provided for in Paragraph 36.
- Replacement of deceased and resigned members
43. In case a member of the Administrative Committee or his alternate is deceased or resigns for any reason, the Minister of Finance with his decision published in the Official Gazette of the Republic, appoints a new member, regular or alternate, for the remaining term of the deceased or resigned member, in accordance with the procedure of

Paragraph 36.

- Liability of members of the Administrative Committee
44. (1) The members of the Fund are not subject to any liability in case of a lawsuit, application or other legal proceedings for damages relating to any act or failure in the exercise of their duties and responsibilities under these Regulations unless it is proved that the act or failure is not made in good faith or is a result of grave negligence.
- (2) The claims of the Fund against the members of the Administrative Committee are prescribed following a period of three years from the carrying out of the act: Provided that in the case of damage caused by fraud the prescription period is ten years.
- (3) The members of the Administrative Committee may use any information coming to their knowledge, exclusively for the accomplishment of the work of the Administrative Committee and are obliged to exhibit confidentiality about confidential matters of the Fund, of which they became informed in their capacity as members of the Administrative Committee:
Provided that this provision does not impede the Administrative Committee from giving information to the Securities and Exchange Commission in relation to matters pertaining to their duties.
- (4) The obligation in accordance with paragraph (3) applies also for every legal entity or natural person, to whom the Administrative Committee assigns the exercise of its powers or duties, or who is employed by the Fund or offers his services to the Fund in general.
- Interpretation provision.
45. Wherever in this Directive there is reference to members of the Administrative Committee, this includes also their legal alternates.

PART VII

GENERAL MEETING, ANNUAL ACCOUNTS AND AUDIT OF THE FUND

- Convening of General Meeting
46. (1) With a decision of the Administrative Committee, the annual regular General Meeting of the members of the Fund is convened within four months from the expiration of the financial year of the Fund, while an extraordinary General Meeting is convened whenever a relevant decision of the Administrative Committee is made.
- (2) The invitation for the convocation of the regular General Meeting, in which the subjects of the agenda and the place and time of the meeting are determined, is sent with the care of the Administrative Committee to the members of the Fund with a letter with acknowledgement of receipt who must receive it at least six days prior to the day of the regular General Meeting.
- (3) At least four members of the Fund may with an application to the Administrative Committee ask for the convocation of an extraordinary General Meeting of the Fund, determining the subjects for discussion and the Administrative Committee is obliged to convene an extraordinary General Meeting within one month from receiving the above application.
- Quorum
47. (1) The General Meeting forms a quorum and is validly convened on the subjects of the agenda when at least half of all members of the Fund are present or represented.
- (2) member of the Fund is allowed to represent at the Meeting up to two other members.
- (3) If the quorum of subparagraph (1) is not present, the General Meeting is convened no later than ten days from the date of the adjourned meeting, invited by the Administrative Committee in accordance with subparagraph (2) of Paragraph 46, at least four days prior to the day of the meeting; a quorum is, therefore, present at this repeated meeting and the meeting validly convenes on the subjects of the initial agenda regardless of the number of the members of the Fund present.
- (4) The Securities and Exchange Commission, with the issue of Directives, may enact special rules on matters of transparency of the General Meeting.
- Decision-making.
48. (1) The General Meeting consists of the members of the Fund each one of them having the right of one vote.
- (2) Every member of the Fund participates in the General Meeting through his authorized representative.
- (3) The General Meeting makes its decisions with absolute majority of its members present and represented.
- Financial year of
49. The financial year of the Fund starts on January 1st and ends on December 31st of the

- the Fund same year.
- Ordinary audit of the financial management and the annual accounts of the Fund
50. (1) The Auditor General of the Republic audits at least once a year the financial management of the Fund and its annual accounts prepared by the Administrative Committee for every financial year in accordance with Paragraph 51:
It is provided that, the report of the Auditor General of the Republic for the elapsed financial year must be completed at least twenty days prior to the date of the annual regular General Meeting of the Fund.
- (2) Subject to the provisions of subparagraph (1), the Committee may appoint one additional qualified auditor to audit the financial management and the annual accounts of the Fund prepared by the Committee for every financial year pursuant to Paragraph 51.
- Annual accounts
51. (1) The Committee is obliged to keep annual accounts of the Fund per financial year, the accuracy and completeness of which are audited in accordance with Paragraph 50.
- (2) No later than one month prior to the end of each current financial year the budget of the next financial year is prepared with the care of the Administrative Committee.
- (3) No later than three months after the beginning of each financial year, a review of the previous financial year is prepared with the care of the Administrative Committee, which along with the balance sheet, the income and expenses account and the report of the Auditor General and/or the qualified auditor appointed in accordance with Paragraph 50, is submitted to the General Meeting of the members of the Fund.
- (4) The balance sheet, the income and expenses account and the report of the Auditor General and/or the qualified auditor are communicated to the Securities and Exchange Commission and the Minister of Finance within twenty days from their discussion at General Meeting.
- (5) The Securities and Exchange Commission with the issue of Directives may enact special rules on issues relating to the auditing of the financial management and annual accounts of the Fund.
- Investment policy of the Fund – placement of available funds.
52. (1) A percentage of at least seventy per cent (70%) of the total assets of the Fund is placed -
- (a) in bonds, bills or other public securities or other equivalent securities issued by a Member State which are easily liquidable; and/or
- (b) in interest bearing accounts in banks operating in the Republic or in other Member State.
- (2) The percentage referred to in subparagraph (1) may be reduced with a permission of the Securities and Exchange Commission so that the difference is used for the reinsurance of the obligations of the Fund.
- (3) A percentage of at least ten per cent (10%) of the total assets of the Fund is placed in interest bearing sight accounts in banks operating in the Republic
- (4) It is permitted to place up to ten per cent (10%) of the total assets of the Fund in shares listed in organized markets of the Republic or Member State and/or in units of UCITS according to the meaning of the Open-Ended Collective Investment Undertakings Law of 2012.
- 78(l) of 2012
- Extraordinary audit of the Fund.
53. The Minister of Finance, the Securities and Exchange Commission or the General Meeting may order the carrying out of an extraordinary audit of the Fund, either by qualified auditors appointed by them or, if such audit is ordered by the Minister of Finance, by the Auditor General of the Republic.

PART V

COMPETENCE TO IMPOSE SANCTIONS

- Imposition of sanctions by the Securities and Exchange Commission.
54. In case of violation by any person of the provisions of the present Directive, the Securities and Exchange Commission imposes an administrative fine in accordance with the provisions of Sections 74 and 141 of the Law.
- Non-fulfillment of obligations of a member of the Fund.
55. (1) In case a member of the Fund does not settle the contributions provided for in Paragraphs 12, 14 and 15 in time or does not fulfill other obligations towards the Fund, the Fund gives a reasonable deadline to fulfill its overdue obligations, which cannot be less than one month.

20

- (2) The member of the Fund is obliged to pay its contribution due with interest thereon calculated from the day of expiration of the deadline for payment in accordance with Paragraphs 12, 14 and 15. If the member of the Fund does not fulfill its obligation under subparagraphs (1) or (2) within the deadline granted by the Fund in accordance with subparagraph (1), the Fund informs the Securities and Exchange Commission and may initiate the procedure for expulsion from the Fund against the member in accordance with Paragraph 56.
- Expulsion of member
56. (1) Insofar as the case of subparagraph (3) of Paragraph 55 applies, the Fund, after obtaining the express consent of the Securities and Exchange Commission, communicates to the member its decision to expel the member which is valid after twelve months from the servicing of the decision, if within the said twelve-month deadline, the member of the Fund has not fulfilled in due time its above overdue obligations listed in the said decision.
- (2) Insofar as the member of the Fund does not fulfill within the deadline granted in accordance with subparagraph (1) its overdue obligations, the Fund permanently expels the CIF or IF which did not comply with its obligations as a member of the Fund and communicates its decision to the Securities and Exchange Commission, the CSE Council and the Cyprus Financial Services Firms Association.
- (3) The Fund publicizes the expulsion of the member of the Fund with publications in at least three newspapers with national coverage.
- (4) The expulsion of a member from the Fund does not discharge this member from its obligations to pay the contributions due.
- (5) After the expulsion of its member from the Fund, the Fund continues to be liable in accordance with the provisions of the Law and of the present Directive for the compensation of covered clients as to claims deriving from transactions carried out prior to the expulsion of the member from the Fund.
- Suspension and revocation of authorization to operate
57. (1) The Securities and Exchange Commission no later than ten days from the expulsion of the member of the Fund, suspends in whole or in part according to the extent of non-compliance with the obligations, the authorization granted to the member in accordance with the provisions of Section 5 or Section 78 or Section 30 of the Law, under Section 25 of the Law, and it may proceed with its revocation in accordance with Section 25 of the Law:
- It is provided that, the Securities and Exchange Commission may also proceed earlier with the suspension and/or revocation of the authorization of the member of the Fund if the preconditions of the Law are fulfilled.
- (2) The decision of the Securities and Exchange Commission under subparagraph (1) is published in the Official Gazette of the Republic.
- (3) Insofar as the expelled member of the Fund is an IF of a Member State or a third country, the Commission also informs the competent supervisory authorities of the said country.
- (4) Non-compliance on behalf of the expelled member with its obligation to pay the contributions due to the Fund after the expiration of the compliance deadline granted by the Securities and Exchange Commission during the imposition of the sanction of suspension of the authorization, forms a reason for revocation of its authorization.
- Reacquisition of membership status to the Fund.
58. (1) If during the period of suspension of the authorization of its expelled member, the Fund informs the Securities and Exchange Commission about the payment by the expelled member of its obligations due, this member revokes ipso jure its membership status and the Securities and Exchange Commission decides within five days from receiving the decision of the Fund about the continuation or not of the measure of suspension of authorization.
- (2) The provisions of Paragraph 56 do not apply in the case of an IF registered in a third country as long as it proceeds in its country of origin with arrangements to cover its investors-clients in the Republic, and the secured cover safeguards the interests of the latter in a way which is at least equal to the way provided for by the present Directive for the Fund:
- It is provided that the only competent agency to evaluate the equality or not of the cover provided by these arrangements is the Securities and Exchange Commission
- Entry into force
59. This Directive shall enter into force on the day of its publication in the Official Gazette of the Republic.

FIRST SCHEDULE

(Paragraphs 12, 13, 14, 15)

Eligible funds and financial instruments of clients

1. (a) The term 'eligible funds and financial instruments' includes all funds and financial instruments of the covered clients which the member of the Fund holds directly and/or indirectly at any given time.
- (b) The term 'indirect holding' includes those situations where the said eligible funds and financial instruments are not in the name of a Fund member but the said Member has access to the funds and financial instruments and the ability to use the said instruments at any given time without the prior consent or approval of the specific client prior to every use.

In determining the eligible funds and financial instruments, for the purpose of calculating the ordinary annual contribution of each Fund member, the greatest amount resulting from the calculation of daily eligible funds and financial instruments of the member during the last day of each month in the preceding calendar year, is taken into consideration.

2. In case the sum of the funds and financial instruments per client exceeds the amount of twenty thousand Euros (€20.000), the amount in excess is not taken into consideration in the calculation of eligible funds.
3. In the case of clients of branches outside the Republic or outside any EU Member State, the maximum compensation amount per client as determined in paragraph (6) of Paragraph 30 is taken into consideration for the calculation of eligible funds and financial instruments.
4. The valuation of the financial instruments is carried out on the basis of their market value.

SECOND SCHEDULE
(Paragraphs 7, 28)
Non-covered clients

1. Subject to the provisions of subsection (2) of Paragraph 3, the Fund does not compensate the following investor categories:
 - (1) The following categories of institutional and professional investors:
 - (a) IFs –
 - (b) legal entities associated with the member of the Fund and, in general, belonging to the same group of companies,
 - (c) banks,
 - (d) cooperative credit institutions,
 - (e) insurance companies,
 - (f) collective investment organizations in transferable securities and their management companies,
 - (g) social insurance institutions and funds,
 - (h) investors characterized by the member as professionals, upon their request, in accordance with Paragraph B of the Second Schedule of the Law.
 - (2) States and supranational organizations.
 - (3) Central, federal, confederate, regional and local administrative authorities.
 - (4) Enterprises who have close ties with Fund members, as per the interpretation of the term 'close ties' in Section 2(1) of the Law.
 - (5) Managerial and administrative staff of the member of the Fund.
 - (6) Shareholders of the member of the Fund, whose participation directly or indirectly in the capital of the member of the Fund amounts to at least 5% of its share capital, or its partners who are personally liable for the obligations of the member of the Fund, as well as persons responsible for the carrying out of the financial audit of the member of the Fund as provided by the Law, such as its qualified auditors.
 - (7) Investors having in enterprises connected with the member of the Fund and, in general, of the group of companies, to which the member of the Fund belongs, positions or duties corresponding to the ones listed in paragraphs (5) and (6).
 - (8) Second-degree relatives and spouses of the persons listed in paragraphs (5), (6) and (7), as well as third parties acting for the account of these persons.
 - (9) Apart from the investors referred to in subsection (2) of Paragraph 3, investors-clients of a member of the Fund responsible for facts pertaining to the member of the Fund that have caused its financial difficulties or have contributed to the worsening of its financial situation or which have profited from these facts.
 - (10) Investors in the form of a company, which due to its size, is not allowed to draw a summary balance sheet in accordance with the Companies Law or a corresponding law of a Member State.
2. In the cases of paragraphs (5), (6), (7) and (8), the Fund suspends the payment of compensation informing the interested parties accordingly, until it reaches a final decision as to whether such cases apply.

THIRD SCHEDULE
(Paragraph 13)

Preconditions for return of monies to the members of the Fund

1. (a) As long as the value of the individual share of a member of the Fund as estimated at the end of each calendar year exceeds one per cent (1%) of the average of the eligible funds and financial instruments of the member of the immediately previous two calendar years, the Fund pays to the member out of the assets of the Fund an amount corresponding to the excess of the value of the individual share of the member in relation to the average of its eligible funds and financial instruments of the immediately previous two calendar years:

It is provided that, upon returning the monies to the member, the value of its individual share to the Fund is decreased accordingly.
 - (b) For the calculation of the value of the individual share of the member, all kinds of guarantees, which have been granted to the Fund in favour of the member or any insurance cover in favour of the member, are not taken into consideration.
 - (c) The return to the member of the Fund of monies in accordance with subparagraph (a) takes place within the first semester of the year during which the obligation of the Fund for return of monies is established.
2. As long as the total value of the individual share of a member of the Fund, as valued at the end of each calendar year, and of the bank letters of guarantee granted in favour of the member in accordance with subparagraph (4) of Paragraph 12 exceeds one per cent (1%) of the average of the eligible funds and financial instruments of the members of the immediately previous two calendar years, the Administrative Committee allows the member to reduce the amounts of its bank letters of guarantee, so that the total value of the individual share of the member and of the bank letters of guarantee amounts to one per cent (1%) of the average of the eligible funds and financial instruments of the member of the immediately previous two calendar years.
 3. Any return of monies or reduction of the amounts of bank letters of guarantee is subject to the value of the individual share of the member not being less than two times the contribution owed by the said member based on the services provided, as determined in accordance with Paragraph 11.