
TO : **Cyprus Investment Firms**

FROM : **Cyprus Securities and Exchange Commission**

DATE : **10 February 2022**

CIRCULAR No : **C487**

SUBJECT : **Redefining threshold criteria of 'significant CIF'**

IMPORTANT NOTE: Please be aware that the following Circular from the Cyprus Securities and Exchange Commission ('CySEC') updates and replaces an earlier Circular C228, issued on 26 July 2017, regarding the threshold criteria for determining which Cyprus Investment Firms (CIFs) are considered a '**Significant CIF**'.

The Cyprus Securities and Exchange Commission (CySEC) has redefined the threshold criteria that determines a 'significant CIF' for the purposes of the Investment Services and Activities and Regulated Markets Law of 2017, as amended, (['The Investment Services Law'](#)) in light of a new prudential framework for investment firms (IFR/IFD).

A. Legal Framework – Background

Limitations on directorships and establishment of nominations committee

1. As per section 9(4) of the Investment Services Law, unless representing the Republic, members of the board of directors of a CIF that is significant in terms of its size, internal organization and the nature, scope and complexity of its activities, **shall not hold more than one of the following combinations of directorships at the same time:**
 - (a) one executive directorship with two non-executive directorships;
 - (b) four non-executive directorships
2. As per section 10(2)(a) of the Investment Services Law, a CIF which is significant in terms of its size, internal organization and the nature, scope and complexity of its activities, **shall establish a nomination committee** composed of members of the board of directors that do not perform any executive function in the CIF.

Establishment of remuneration and risk committees

3. According to section 22(4) of the Law [165\(I\)/2021](#) on the prudential supervision of investment firms ('the Prudential Law') the CIFs that do not meet the criteria set out in point (a) of section 26(8) of the Prudential Law, **should establish a risk committee**, composed of members of the board of directors that do not perform any executive function in the CIF concerned.
4. According to section 27 of the Prudential Law, CIFs that do not meet the criteria set out in point (a) of section 26(8) of the Prudential Law, **should establish a remuneration committee**, subject to the provisions of this section.
5. Section 26(8)(a) of the Prudential Law refers to a CIF where the value of **its on and off-balance sheet assets is on average equal to or less than EUR 100 million over the four-year period immediately preceding the given financial year.**

Thus, if a CIF's on and off-balance sheet assets are on average greater than EUR 100 million over the four-year period immediately preceding the given financial year, it should establish a remuneration committee and a risk committee according to the provisions of the Prudential Law mentioned above.

B. Definition of a 'significant CIF' for the purposes of Investment Services Law

6. For consistency purposes over governance requirements between the Investment Services Law and the Prudential Law, a CIF shall be considered as a 'significant CIF' for the purposes of the Investment Services Law where its **on and off-balance sheet assets are on average greater than EUR 100 million over the four-year period immediately preceding the given financial year.**

C. Frequency of assessment

7. CIFs should, **within four months from the end of each of their financial year**, assess whether they meet the threshold defined in point 6 above to become a 'significant CIF' for the purposes of the Investment Services Law and for the purposes of sections 22(4) and 27 of the Prudential Law. If a CIF meets the threshold criteria, then it should:
 - (a) take all necessary measures to comply with the requirements that apply to a 'significant CIF' as per the Investment Services Law,
 - (b) take all necessary measures to comply with the relevant requirements of the Prudential Law and
 - (c) forthwith inform CySEC accordingly and submit its new organisational structure through CySEC's portal.

This assessment is considered as valid until the next assessment is made for the following year. We note that annual assessments should always take into consideration the four-year period immediately preceding the given financial year.

Where a CIF has been in business for less than four years, for the purposes of the above assessment it shall use its on and off-balance sheet assets for the periods available. Therefore, a CIF that after the above assessment has on and off-balance sheet assets¹ on average greater than EUR 100 million over the four-year period immediately preceding the given financial year, it must make arrangements to establish and have in place sound, effective and comprehensive strategies, processes and systems to achieve compliance with the following requirements:

	<u>Requirement</u>	<u>Reference</u>
1.	Limitations on Directorships	Section 9(4) of the Investment Services Law
2.	Establishment of Nomination Committee	Section 10(2)(a) of the Investment Services Law
3.	Establishment of Risk Committee	Section 22(4) of the Prudential Law
4.	Establishment of Remuneration Committee	Section 27 of the Prudential Law

Sincerely,

Dr George Theocharides
Chairman
Cyprus Securities and Exchange Commission

¹ For the purposes of calculating off-balance sheet assets, clients' assets and client's financial instruments that are held off balance sheet by the CIFs should be included.