
TO : **Cyprus Investment Firms**
FROM : **Cyprus Securities and Exchange Commission**
DATE : **January 22, 2014**
CIRCULAR No. : **CI144-2014-02**
FILE No. : **E.K. 6.1.14**
SUBJECT : **Granting trading benefits to clients**

The Cyprus Securities and Exchange Commission ('the Commission') wishes to inform the Cyprus Investment Firms (the 'CIFs') the following:

1. It has been noted that CIFs grant trading benefits (e.g. bonuses) to their clients under certain conditions. Sometimes these conditions are associated with the funds that clients deposit in CIFs for trading. This practice is permitted provided that clients' funds are free to withdraw at all times and whenever the client wishes.

It has been observed, however, that the above does not always apply. There are cases where the client, who has been granted a benefit, may withdraw his funds only when he conducts trades whose total value reaches a specified, by the CIF, trading volume.

2. Any restrictions on the withdrawal of clients' funds are not in compliance with the provisions of the Investment Services and Activities and Regulated Markets Law, as in force ("the Law") and the Commission's Directive DI144-2007-01 of 2012 for the authorisation and operating conditions of CIFs ("the Directive").

Furthermore, prompting clients to conduct trades with a view to achieving a specified trading volume and then be entitled to withdraw their deposits are not accepted as fair and good practice towards clients.

3. Specifically, all the above mentioned in point 2 seem to be not in accordance with the provisions of:
 - i. Section 18(2)(j) of the Law which states that a CIF, when holding funds belonging to clients must take every possible measure to safeguard clients' rights.
 - ii. Section 36(1) of the Law which states that CIFs must act honestly, fairly and professionally when providing investment services to their clients.
 - iii. Directive regarding the provisions for the safeguarding of clients' funds.

4. CIFs that grant monetary benefits to their clients, must:

- i. Provide accurate, clear and not misleading information, when advertising such a scheme.
- ii. Describe in detail to their clients the way the scheme works, as well as its terms and conditions.
- iii. Always be able to separate the funds belonging to clients from the monetary benefit granted to them.
- iv. Monitor on a continuous basis and take all appropriate measures to always be able to meet the terms of the scheme without affecting their capital adequacy.

Sincerely,

Demetra Kalogerou
Chairwoman of the Cyprus Securities and Exchange Commission