

cover  
story

# A Growing Cluster

By Artemis Constantinidou, Adonis Adoni, Marianna Nicolaou & Antigoni Markitani

With temperatures rising to dizzying heights as we edge closer to another summer's peak, there could hardly be a more apt parallel to describe how Cyprus Investment Firms (CIFs) and the local investment funds industry have grown over the past few years. Since 2011, the number of investment firms regulated by the Cyprus Securities and Exchange Commission (CySEC) has risen by 104% and there are no signs that critical mass has been reached. The local regulator is currently preparing to tame the black horse of the financial markets – which answers to the name of cryptocurrencies – while it has already signed up investment funds with ESG an integral part of their investment strategy. Recent data shows that out of the €8.58 billion of funds under management in Cyprus-regulated funds, some €28 million has been invested in sustainable projects.

On the occasion of CySEC's 25th anniversary, this month's cover story devotes a great deal of attention to the impact that the regulator has had in shaping the capital market, with Chair Demetra Kalogerou and Vice-Chair George Theocharides drilling down into the details of the policies and regulations that have been developed to reinforce investor protection and setting out their priorities for the coming decade. Also, key figures on the local and European scene provide valuable insights into how the country has emerged as a centre for investment and financial services, as well as how advanced data analytics is shaping policy and driving regulatory convergence in the EU. On the following pages, you can read exclusive interviews with Andreas Yiasemides, President of the Cyprus Investment Funds Association (CIFA), Fabrizio Planta, Head of Markets and Data Reporting Department at the European Securities and Markets Authority (ESMA), Marios Salides, Chairman of the Cyprus Financial Services Firms Association (CFSFA), Demetris Taxitaris, Chairman of the Association of Cyprus International Financial Firms (ACIFF) and George Campanellas, CEO of Invest Cyprus.

We also present two comprehensive listings of 45 leading Cyprus Investment Firms and 30 major Fund Management Companies.



# Pedal to the Metal

**Investments and the firms engaged in related activities are poised to drive the Cyprus economy out of another slump.**

By Adonis Adoni

**H**ardly a day goes by without financial pundits and politicians claiming with furrowed brows that we are in for a rough time as we attempt to recover from the economic sucker punch that the pandemic has delivered. There is strong evidence to suggest that they are right. The question then is: how do we reinvent our way out of trouble? If history has taught us anything, it is that saving and investing lie at the heart of wealth creation. On the other hand, monetary policies that accelerate consumption (lowering interest rates to pull household spending forward comes to mind) are bound to leave us poorer. Disincentives for people to be productive will also have a similar impact – in many countries, the proliferation of unemployment benefits has been heavily linked to economic stagnation. Particularly instructive is the fact that, in the second half of 2021, there has been a spike in consumption spending in Cyprus, partly financed by credit support measures that have ballooned the public debt. At the same time, there has been a corresponding rise in the number of households that have borrowed beyond their repayment capabilities. This should not come as a surprise; Cypriots have a long history of bad debts. While the support packages have acted as connective tissue for companies, between the sudden loss of revenue and mounting wage bills, unemployment in contact-intensive sectors continues to rise. Consumption was never a means of economic growth but rather the end-goal that was funded by a combination of investment and savings. Businesses sweat for months (if you are a startup, for a bit longer), investing in raw materials and human capital and then reinvest their earnings before coming up with a final product. Savings and investment enable increased productivity, which then brings greater specialization and creates more jobs. Not surprisingly, firms engaging in investment activities have emerged as a sophisticated supply chain between people willing to invest and sellers of financial products – stocks, bonds, securities, you name it. In Cyprus, such firms (called Cyprus Investment Firms or CIFs) are mostly forex traders. While we do not

have enough data to draw definitive conclusions on how these firms invest in the real economy, since the Cyprus Securities and Exchange Commission (CySEC), the competent regulator, bundles their activities under the category of companies that act as Management Companies and Undertakings for Collective Investments, we do know that their numbers have been steadily increasing: there are currently 243 CIFs, marking a 104% increase from 2011.

In 2004, Cyprus became a member state of the European Union and CySEC adopted the passporting principles of the MiFID regulation. Forex traders looking for a slice of the EU became interested in the small island in the Eastern Mediterranean, putting the country's status as low corporate income tax jurisdiction in the plus column. As the cluster of investment firms grew, so did the network of financial and professional services companies employing highly skilled teams that could cater to their every need. Add to that, low operating costs – Cyprus was the only member state where rental costs and property prices fell in 2021 – and it becomes easier to see why the country is a hotbed for foreign exchange trading. There is a fly in the ointment, though: traders, by default, are looking for quick returns. By 2015, the infrastructure that was built to support the growing cluster of investment firms became the foundation for the country to emerge as a centre for investment funds, which tend to value patience in their investment endeavours.

Recent estimates have Cyprus-regulated funds managing close to €10 billion in assets. This is a record high, with the European Fund and Asset Management Association (EFAMA) naming Cyprus as the fastest-growing hub in Central and Eastern Europe. A fifth of the money ended up back into the economy, with private equity taking the lion's share of the investments. Other sectors that have attracted significant investments include real estate, shipping, energy and fintech.

CySEC's role shouldn't be underestimated here. It would be a coincidence of cosmic proportions to acquire a reputation as centre for financials and investment services without having a competent regulator levelling the playing field. It has been, though, a bumpy

road. Back in 2012, the regulator made the practice of trading binary options legal within the eurozone, which allowed some disreputable players to enter the fold. The practice is no longer legal and the regulator has implemented sweeping changes to reinforce investor protection, with emphasis given to developing regulations for the securities market for the benefit of both firms and funds. Sustainable finance and cryptocurrencies are all the rage now in investment circles. However, the share of ESG investments in Cyprus and the firms engaging in these activities remains relatively low. Granted, this is true for most of the European Union despite the legislative push under the umbrella of the European Green Deal and the Capital Markets Union initiative. The local watchdog has taken positive steps by incorporating the EU's common play-book into national law, like the amended Benchmark Regulation, which introduces the EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks. In terms of cryptocurrencies, there is no regulatory framework in place. Over the years, both CySEC and the Central Bank of Cyprus have issued circulars for investment firms that deal in cryptocurrencies. In 2019, EU amendments to the Anti-Money Laundering Directive to cover crypto exchanges were incorporated into national law, while the regulator launched the Innovation Hub, inviting both regulated and non-regulated players to congregate. It remains to be seen whether the volatile nature of cryptocurrencies can be balanced under a set of common rules but the increasing numbers of investment firms adding crypto to their services present a unique opportunity for Cyprus to build on its reputation as a centre for financial activities.

As we gear up for another economic reset, increasing the share of investment firms and funds in Cyprus will put the economic pedal to the metal, creating ripple effects, from injecting the market with circular and innovative ideas all the way up to creating jobs. Increasing consumption is merely the result of this growth. After all, sound and sustainable economic growth needs us first to contribute to the supply of wealth before we take from it; sacrificing a bit of the present opens up the future.





# CySEC: Safeguarding the Future of Financial Markets

Since 1996 when it was originally set up, CySEC's vision has been to establish the Cyprus securities market as one of the safest, most reliable and attractive destinations for investment, while exercising effective supervision to ensure investor protection as well as the sector's healthy development. On its 25<sup>th</sup> anniversary, the independent supervisory authority can be proud of having contributed to the industry's considerable growth and has every reason to be celebrating its achievements. In this context, CySEC Chair Demetra Kalogerou and Vice-Chair George Theodorides talk to GOLD about the ups and downs of the Commission's first quarter-century and outline their expectations of the Commission's future.

By Artemis Constantinidou  
Photos and Cover Photo by RiNiS13 Photography





# CySEC

is currently celebrating its 25th anniversary. What would you select as the Commission's most important milestones over this first quarter-century of its existence?

**Demetra Kalogerou:** The most important milestone for CySEC would definitely be the harmonisation of the entire legal framework with the European Directives governing the securities market, which ensured that firms in Cyprus were regulated with the same regulatory provisions and investors were protected by the high standards of the European Union. In conjunction with this, CySEC pressed ahead with modernising and enhancing national legislation to bring it in line with the latest developments and



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Demetra Kalogerou

best practices in the European and international capital markets, and with the specific characteristics of the domestic market. The objective was to build a comprehensive framework that fosters compliance by the regulated entities, investor protection and the healthy growth of the sector.

Another important milestone was the gradual strengthening of CySEC through the granting of additional and expanded powers, so that it now has the necessary dissuasive and preventive tools at its disposal to ensure the compliance of regulated entities. With financial markets being so fast-paced and dynamic, it is important to regularly assess the need for additional enforcement powers and it is imperative that its supervisors have all the powers and means required to fulfil their mandate.

CySEC's growth, in terms of the number employees, predominantly over the last 10 years, has ensured that it continues to meet its growing responsibilities. The sector's considerable growth was a key achievement,

for which I would like to thank the Minister of Finance. It was thanks to the increased human and other resources that CySEC was able to press ahead with key infrastructure projects and elevate its supervisory tools, as well as its capacity to deliver in terms of its multifaceted mandate and responsibilities, in view of the extensive market growth that came in the following years.

**Your role was paramount in the growth of the investment funds sector. How important do you envisage investment funds becoming in the future?**

**D.K.:** After the three major economic shocks – namely the 2013 financial and banking crises, the economic adjustment programme agreed between the Government and the Troika, and Cyprus being downgraded to “junk” category by the credit rating agencies – it was evident that the private sector's over-reliance on bank finance had made it extremely vulnerable.

It was important to diversify the investment and funding possibilities for investors in order for the Cyprus economy to recover. This was, to a certain extent, the rationale behind our efforts at CySEC, in cooperation with the Ministry of Finance, CIFA and other market participants, to develop the framework for the investment funds sector. By preparing a series of new laws and amendments to existing laws, we paved the way for the growth of the collective investment sector as a key alternative form of financing. Specifically, in 2012, the Law on Undertakings for the Collective Investment in Transferable Securities (UCITS 4) was passed, followed in 2013 by the Law on Alternative Investment Fund Managers, and in 2014 the Law on Alternative Investment Funds (AIFs) entered into force. In 2016, the Law was harmonised with the EU Directive UCITS 5. Over a span of just five years, we have completed a comprehensive framework that enables UCITS and their managers, alternative

investment funds and alternative investment fund managers, to seek licensing and begin operations. In 2020, CySEC introduced the legislation for Registered Alternative Investment Funds (AIFs) and small AIF managers (“Mini-Managers”), while a draft Law is currently being prepared regulating the companies that undertake the administration of AIFs (“fund administrators”). As a result, the collective investment sector has flourished. From just five regulated entities in the collective investment and fund management sector in 2013, they currently number 273. Also, the total funds under management by the management companies have jumped from €2.7 billion in 2016 to €9.8 billion in the first quarter of 2021.

**In your opinion, what else could or should be done in order to attract more investment and grow the investment sector in Cyprus?**

**George Theocharides:** Notwithstanding the fact that attracting investment firms or any other supervised entity is not – and, in my view, should not be – within CySEC's mandate, it is generally acknowledged that jurisdictions with open and stable economies, sound and comprehensive regulations conducive to new technologies and innovation, attract an increased number of investments. Of course, many factors are at play in order for a jurisdiction to attract and support investment. The investment funds sector in Cyprus is a good example. If the professional services sector was not as skilled, strong and well-educated to support the expansion of the investment funds sector, as Demetra mentioned, the objective of attracting investment funds and their managers to Cyprus would have been unattainable. To guarantee that market participants offer a high standard of services, CySEC has ensured that key-position employees are certified and continuously educated on the relevant regulatory framework. This has increased the level of professionalism in the sector, together with market confidence and efficiency. In 2020, these requirements were extended to include AML Compliance Officers and, by the end of this year, new exams will be in place for individuals employed by regulated entities to provide clients with financial information. At the same time,

CySEC will continue to encourage growth through new products and technologies. Its commitment to new and innovative solutions was illustrated by the creation of the Innovation Hub in 2018, to explore the growth and uses of FinTech developments like blockchain, virtual currencies, Crypto exchanges, and DLT and Regtech solutions that may help market participants to be more compliant. CySEC is currently looking into the possibility of transforming the Innovation Hub into a Regulatory Sandbox where Fintech start-ups and other entities can test their innovative products or services in a controlled environment and in real conditions, under the regulator's supervision. In general, CySEC, will continue to work on strengthening the supervisory framework and, consequently, ensuring the credibility and quality of services provided by the market, which is a key condition for the capital market to continue to grow rapidly and remain a pole of attraction for new investors.

**What kind of regulatory and other changes do you expect to see in the future in terms of the sector that CySEC supervises?**

**G.T.:** I expect to see further digitalisation and automation. As the world becomes increasingly digital and interconnected, financial markets are becoming more automated and data-led. As an example, think of the now automated financial advice provided by “robo-advisors”. Financial innovation and digitalisation offer a unique opportunity for capital markets to improve efficiency and better manage risks, while they can provide more value to their customers. At the same time, supervisors should not only encourage the exploration of new technologies, but also watch out for any risks to the market and investors that may stem from them. This is why CySEC set up the Innovation Hub in 2018: to better understand the demand and intended uses of new financial technologies. And in 2020, it regulated crowdfunding, which can serve as an alternative way of financing start-ups that deal with innovative products. Crypto-assets and their underlying technology – known as Distributed Ledger Technology (DLT) – are another emerging technology transforming the financial services sector. Due to the growing

popularity of crypto-assets and recognising their transformative potential, we carefully considered how to best regulate them and in 2021, CySEC issued a Directive and Policy Statement in relation to crypto-assets service providers. As a result of these intense digitalisation trends and the emergence of new technologies, regulatory requirements are increasing as well. Their aim is, amongst others, to protect investors who are expected to choose between ever-increasing numbers of financial solutions. This is why jurisdictions around the world have understood that a strong legal and supervisory framework should be complemented by financially educated investors. Recognising the need to encourage financial literacy early on in life, CySEC advocates for the introduction of financial education in schools and has submitted specific proposals to the Government for the creation of a national strategy to address financial illiteracy. Since December 2020, CySEC has been a member of the ad-hoc committee for drafting Cyprus' national policy on promoting financial literacy.

The need for increased transparency is also key. In line with this, CySEC is moving forward with the creation and maintenance of the Trusts Register in which information on the UBOs of express trusts and other legal arrangements similar to trusts must be included. The intention is to provide a clear picture with regard to who benefits from transactions and operations undertaken by an entity, in line with the requirements laid out in the 5th EU AML Directive. Another development is, of course, the focus on green investment and how the financial and capital markets have a role to play in a more sustainable growth for the future.

**How significant has the sector under CySEC supervision become for the Cyprus economy?**

**D.K.:** Capital markets play a critical role in the successful functioning of modern economies. They offer a means or a platform that private companies can use to raise the funds they require to expand and grow, and individuals are given the opportunity to invest their savings to generate a return. Healthy and strong capital markets with



a steady growth have been shown to lead to long-term GDP growth and economic prosperity. The development and progress of the capital market in Cyprus has always been an important goal for CySEC. And the growth of the investment services sector has, indeed, been remarkable, especially in the last decade. The submission of applications from Cyprus and abroad for licensing of new regulated entities continues unabated, despite the difficult international financial environment and the challenges faced by the Cyprus economy in recent years, including the damaging effects of the COVID-19 pandemic. This is the result of a continuous drive by CySEC to foster a forward-looking and digital economy in financial services, by encouraging new technologies and products that will provide innovative solutions and enhance the way investors interact with and participate in the financial system. Compared to December 2011, when CySEC had 247 entities under its supervision, today it supervises a total of 790 entities, representing an increase of 220%. In the field of collective investments and investment funds, entities have also multiplied to a total of 273. Finally, as mentioned earlier, funds under management by collective investment management companies in March 2021 stood at €9.8 billion, steadily rising from previous years. It is worth noting that this growth is not only quantitative but also qualitative, as the size and complexity of the structure and work of the regulated entities are constantly expanding, resulting in new jobs for highly educated professionals. Indicatively, regulated entities currently employ more than 20,000 professionals. Apart from the obvious direct effects, such as the creation of jobs and the payment of taxes, the growth of the sector has a multitude of indirect effects, such as promoting business activity in other sectors (lawyers, accountants, auditors, real estate, etc.), creating demand for high standards of specialised knowledge and expertise, and encouraging technological, communication and other infrastructure projects. In effect, these spillovers shape a national financial ecosystem that benefits the entire economy.

**The issues of compliance, transparency and investor protection often arise when referring to the securities market. What does CySEC do in order to ensure these are effectively observed and what are the biggest challenges it faces in dealing with these matters?**

**D.K.:** CySEC supervises its market using different approaches, the key ones being proactive supervision, event driven-reactive supervision and thematic work. In order to be more effective and allocate its resources in the most efficient manner, CySEC follows a risk-based supervision approach (RBS-F), meaning that the risks inherent in each regulated entity and their potential impact are taken into consideration so as to focus supervision on entities that have the greatest risks/highest impact. On the basis of the RBS-F results, a supervisory action plan is prepared annually, specifying the inspections/reviews to be performed, given that the frequency and depth of monitoring depends on the regulated entity's risk classification. Apart from the planned supervisory checks, CySEC also takes action when it identifies significant issues/risks for a specific CIF through a number of sources that could affect, for example, investors' best interests. Such issues/risks may be identified from various sources of information, including information submitted by the CIF itself, market news, data analysis, whistleblowers, client complaints and information from other NCAs. These sources are also an important factor in deciding the areas on which our supervisory work should focus. However, the need for the further enhancement of supervisory infrastructure and tools must be regularly assessed, to ensure that the Regulator is fully equipped to respond to threats to investor protection and the smooth functioning of the market. It is absolutely imperative that supervisors stay ahead of the game by having all the necessary infrastructure and tools in place, to ensure the compliance of regulated entities with increasing and data-heavy regulatory requirements. That is why one of CySEC's priorities for 2021 and the coming years is to design and develop processes and methodologies that focus on the use of data-driven supervision in the implementation of European Regulations EMIR, MIFIR and SFTR. Due to the size of the market and the complexity of the new regulation, CySEC

will respond to the need to manage Big Data with regtech systems that use Artificial Intelligence and Cloud Computing. These solutions will enable CySEC to quickly screen data representing large and varied trading volumes, in order to automatically detect risks and irregularities at an earlier stage and, thus, be able to react more quickly against those risks and irregularities. Given the international and largely web-based nature of the activities of CIFs, a new tool is a supervisory system that CySEC is in the process of acquiring for monitoring supervised entities' online marketing activities/materials. This tool will further enhance CySEC's ability to collect, analyse and monitor the marketing communications of CIFs. In essence, the challenge for every supervisor worldwide is to stay proactive and ahead of financial market developments and technological expansion, no matter how fast paced it may be, by using all available resources and technological solutions, as efficiently and productively as possible.

**Do you believe that the capital markets should play a role in facing the challenge of climate change and the ecological crises?**

**G.T.:** Yes, I believe that they can and should play an important role in supporting the policy objectives of the European Green Deal as well as the EU's commitment to international sustainable development goals. Capital markets can help by attracting and channelling capital and funding green, social and sustainable investments ("sustainable finance"). Sustainable finance can help ensure that investments support sustainable recovery and a path towards a more resilient and green economy. There is a clear consensus that we need to build a financial system that inherently supports sustainable growth, by redirecting activity towards green and digital sectors. The package of legislative measures arising from the European Commission's Action Plan, includes the Sustainable Finance Disclosures Regulation (EU) 2019/2088 (SFDR), which became applicable on the beginning of March 2021, as well as the Taxonomy Regulation and the Low Carbon Benchmark Regulation. The SFDR aims to create a level playing field for financial market participants and financial advisers on transparency in relation to sustainability risks, the consideration

of adverse sustainability impacts in their investment processes, and the provision of sustainability-related information with respect to financial products. The Taxonomy Regulation establishes a set of criteria to identify the degree to which economic activities can be considered environmentally sustainable. The Low Carbon Benchmark Regulation amends the EU Benchmark Regulation by introducing two new climate-related benchmark classifications and it requires administrators of ESG benchmarks to publish certain information.

**Has this new investment trend been gaining ground in Cyprus?**

**G.T.:** In Cyprus, although we are yet to see a large-scale shift towards responsible investments, we have already signed up a few alternative investment funds with an investment policy focusing on environmental, social and governance (ESG) factors. Also, the latest data gathered from asset managers in Cyprus showed that €28.1 million out of

€8.58 billion of funds under management have a sustainable investment strategy, which is indeed a very promising step in the right direction. To encourage and assist investors and regu-



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**George Theocharides**

lated entities in this regard, and in line with the EU action plan for financing sustainable growth, CySEC has confirmed its commitment to fostering compliance with sustainable finance standards, while in early 2021 it created a dedicated section on its website on sustainable finance which, inter alia, provides information on the legislative measures being introduced at the EU level.

**We know that your second term and 10<sup>th</sup> year as Chair of CySEC is coming to an end. What has been the most exciting thing about being the Head of CySEC?**

**D.K.:** Generally, I consider the financial market to be the most exciting, challenging & fast-paced industry to work in. And more so, being the Chair of the regulator mandated to supervise and control a good portion of the financial system in Cyprus, and ensure at the same time fair and efficient markets, investor protection, and financial stability, has been a multifaceted responsibility. It is a high-energy, stimulating environment in which people who are self-motivated and those who thrive on pressure generally enjoy themselves and do well. The investment services market is a dynamic industry with a heavy reliance on technology and innovation, and you must keep moving to stay up to date. Especially when you are the regulator and you need to keep up with the market, using far more limited resources and flexibility than the entities you supervise. I have often found myself forgetting to check my watch, even after very long hours at the office. Throughout my 10-year journey, we have been faced with many major challenges but we were able to contribute to strengthening CySEC and growing its mandate as a regulator, as well as supporting the progress and expansion of the market under its supervision. I have had a very fruitful cooperation with the previous Vice-Chairman Andreas Andreou and, now, with George Theocharides, and the members of the Boards of CySEC who served alongside me over these past 10 years, as well as with the staff of the Commission. I very much want to see CySEC continuing to press ahead towards further upgrading and developing the investment services sector, as I truly believe that CySEC has the experience, the determination and the people to achieve its vision and contribute to the Cyprus economy.