
TO : Cyprus Investment Firms

FROM : Cyprus Securities and Exchange Commission

DATE : October 10, 2016

CIRCULAR NO. : C162

SUBJECT : Capital adequacy requirements - Change in the treatment of the Investors Compensation Fund Contribution

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

1. According to the Investment Services and Activities and Regulated Markets Law ('the Law') and Directive DI144-2007-15 of 2015 ('the Directive'), CIFs are obliged to be members of, and contribute to, the Investors Compensation Fund ('ICF').
2. By now for capital adequacy purposes, the ICF contribution was categorised as an 'exposure to public sector entities', pursuant to paragraph 13(3) of Directive, and risk weighted accordingly, when total risk exposure amount was calculated.
3. Having in mind:
 - i. the aim of the prudential supervision, which is to establish rules to make sure that institutions hold enough capital to ensure continuation of a safe and efficient market and able to withstand any foreseeable problems,
 - ii. the nature of the ICF contribution,

the treatment of the ICF contribution, for capital adequacy purposes, is changing as of today. In particular, CIFs must deduct the ICF contribution presented in their records from Common Equity Tier 1 Capital and must no longer risk weight the relevant amount, when total risk exposure amount is calculated.

4. In particular, the ICF contribution must be presented in Form 144-14-06.1, Sheet CA1, Row 524, ID 1.1.1.27 (Additional deductions of CET1 Capital due to Article 3 CRR).
5. In case the own funds and/or capital adequacy ratio of a CIF fall below the minimum allowable limits as a consequence of the above change, the CIF must take all necessary measures so as to comply with CRD requirements, immediately and not later than December 31, 2016.

It is expected that own funds and capital adequacy ratio as at December 31, 2016, which will be reported to CySEC by February 11, 2017, will be above the minimum allowable limits.

Sincerely,

Demetra Kalogerou
Chairman Cyprus Securities and Exchange Commission