



CYPRUS SECURITIES AND EXCHANGE COMMISSION

TO : **Investment Firms**
FROM : **Cyprus Securities and Exchange Commission**
DATE : **07 September 2007**
CIRCULAR No : **IF(2007-12)**
FILE No : **E.K. 6.1.14**
SUBJECT : **Assessment of CIFs shareholders' suitability – Know your customer procedures of CIFs' clients**

The Cyprus Securities and Exchange Commission ('the Commission') wishes with the present circular to inform the Cypriot Investment Firms (CIFs) of the following:

A. Assessment of CIFs shareholders' suitability

1. According to the requirements for the granting of a CIF authorisation, which are mentioned in the Investment Firms Laws of 2002-2005, the CIF must have suitable shareholders to ensure its sound and prudent operation.
2. Taking into consideration the above requirement, as well as the Commission's obligation to ascertain the CIFs' compliance with the said requirement at all times, the Commission clarifies that it is not allowed to persons that have issued or intend to issue bearer shares to have, directly or indirectly, participation to the CIF's share capital (includes all the levels of shareholdings that are above the CIF).
3. The applications for the granting of a CIF authorisation, which will be submitted to the Commission after the publication date of this Circular, should comply with point 2 above. On the contrary, the Commission will determine that the applicant does not comply with the requirement of shareholders' suitability and the relevant application will be rejected.
4. The existing CIFs should notify the Commission by **Friday 21 September 2007**, whether any of the shareholders, with direct or indirect participation to their share capital (includes all the levels of shareholdings that are above the CIF) has issued or intends to issue bearer shares.

B. Know your customer procedures of CIFs' clients

5. In the event where the CIF has customers of which their shareholders, with direct or indirect participation to them, have issued or intend to issue bearer shares, the CIF must follow the procedures described and receive all the necessary documents as mentioned in the Commission's directive regarding money laundering ('the Directive').
6. As far as the Directive's paragraph 2.7.2.3. is concerned, which mentions that a confirmation is needed from a bank in Cyprus that it has under its possession the shares of the companies with bearer shares, it is noted that this confirmation is also allowed to be taken by credit institutions established in another Member State.
7. In the event that the CIF proceeds, on behalf of its customers, to transactions with counterparties determined by its customers, the said counterparties are determined as CIFs' customers and therefore the CIF must also apply to them the know your customer procedures, as specified in the Directive.
8. In the events where there is no Registrar of Companies or any other similar source of retaining companies' information, the CIF must receive information to determine and verify its customers' identity on the basis of documents, data or information from a reliable and independent source, as specified in article 8 of the European Directive 2005/60/EC, which the Commission intends to adopt under its upcoming directive to be issued regarding money laundering.

Yours sincerely

Georgios Charalambous
Chairman, Cyprus Securities and Exchange Commission

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