

Cyprus Securities and Exchange Commission



Annual Report

for the year ended on 31 December 2009

09

Annual Report

for the year ended on 31 December 2009

CYPRUS SECURITIES AND EXCHANGE COMMISSION

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Board of the Cyprus Securities and Exchange Commission

Chairman

Georgios Charalambous

Vice-chairman

Christina Christou (as of 23.07.2010)

Akis Hadjipieris (until 03.05.2010)

Members

Spyros Kokkinos

Menelaos Kyrianiou

Marios Moiseos (as of 23.2.2009)

Representative of the Governor of the Central Bank of Cyprus

Constantinos Trikoupis



Chairman's Statement

Economic and Financial Conditions

The difficult financial conditions of 2008, both in Cyprus and worldwide, persisted in 2009. The impact of the international financial crisis on the real global economy remained strong, reflecting in particular the worst economic recession in the last 70 years. In Cyprus, developments in 2009 in the financial sector, including the securities market, as well as in the real economy, indicated a situation with negative features, though quite different to that of the European Union as a whole. More specifically, financial institutions, including the CIFs¹ which fall under the supervision of the Cyprus Securities and Exchange Commission (the "CySEC"), continued to enjoy a relatively healthy financial state in the year under review, since their exposure to high risk investments was very limited. It should be noted that all losses suffered by CIFs as a result of these investments were covered by current revenues or from the CIFs' own equity, without causing serious capital adequacy problems (in the few cases where own equity fell below the minimum threshold due to losses, the shortfall was covered by the CIFs' own resources in a very short period of time).

The Cyprus economy, which entered a phase of recession in 2009 (negative GDP growth rate of -1.7% in 2009 compared to a positive growth rate of 3.6% in 2008) was affected by the international crisis with significant time lag, since the recession was experienced at a time when large European economies already started to show signs of recovery. This development raises justified concerns over the prospects of the Cyprus economy in 2010, with relevant estimates by competent bodies appearing to be pessimistic.

Prices on the Cyprus securities market continued to follow the trends of the international stock exchanges and in particular the Athens Stock Exchange (ASE). This was mainly due to the fact that the shares of the two largest companies on the Cyprus Stock Exchange (CSE), in terms of capitalization, are also listed on the Athens Stock Exchange. More specifically, the general share price index of the CSE in 2009, registered an increase of 45% compared to a drop of 77% in 2008. During the year, changes in the index were characterised by stronger volatility compared to respective indices in other European countries, due mainly to the lack of depth in the Cyprus securities market. The fact that in 2009 the volume of transactions on the CSE remained at low levels despite the marked rise in share prices is indicative of the above. This is evidence that investors in Cyprus have remained cautious vis-à-vis the securities market, having been largely affected by the crisis which followed the stock exchange bubble of 1999-2000 in Cyprus as well as the recent international financial crisis.

¹ *Cyprus Investment Firms*

The Strategy of the Cyprus Securities and Exchange Commission

Amid these adverse conditions, the Cyprus CySEC has been faced with serious challenges in fulfilling its strategic objectives, which are as follows:

- The upgrading of the regulatory and supervisory framework in Cyprus
- The better protection of investors
- The development of a fair, more competitive and more efficient securities market
- The creation of the necessary conditions for transparent, efficient and effective operation of the CySEC.

These challenges have become even greater as a result of two recent extraordinary developments: firstly, the comprehensive and significant modifications being promoted in the European regulatory framework as a result of the international crisis and secondly, the strong interest shown by foreign firms to obtain a license and operate CIFs in Cyprus.

We believe that, notwithstanding its limited human resources, the CySEC has effectively responded to these challenges, by promoting measures aiming at the smooth operation of the financial system and the enhancement of the public's confidence.

Our actions focused mainly on the further improvement of the regulatory and supervisory framework, the upgrading of the system for the monitoring and assessment of risks related to the field of activity of the CIFs, the increased protection of investors through better financial education and the further strengthening of the internal efficiency and effectiveness of the CySEC.

Amongst the various improvements in our regulatory framework implemented in 2009, it would be worth mentioning in particular the approval by the Cyprus House of Representatives of the new Cyprus Securities and Exchange Commission Law which enhances, *inter alia*, the means available to the CySEC for the collection of information. The new Law has also created the necessary conditions which enabled the Commission to sign the IOSCO MMOU². This has been a major development in our efforts to upgrade Cyprus as a regional financial centre.

In the meantime, we have completed the necessary preliminary work which will allow us to transpose into the Cyprus legislation, in a timely and efficient way, the regulatory changes already promoted in the European Union (UCITS IV³, AIFMs⁴, CRD⁵, etc). An important feature of this work has been the development

² International Organization of Securities Commissions Multilateral Memorandum of Understanding

³ European Directive on Undertakings of Collective Investments in Transferable Securities

⁴ European Directive Proposal on Alternative Investment Fund Managers

⁵ European Directive Proposal on Capital Requirements

of the necessary knowledge by CySEC officers who are entrusted with the responsibility to transpose the new European legislation into the Cyprus law.

In 2009, a team of the International Monetary Fund carried out an assessment of the Cyprus financial system, including the securities market, in the context of the Financial Sector Assessment Program (FSAP). The relevant report, based mainly on the review of the legislation and its implementation in Cyprus, acknowledges the existence of a comprehensive regulatory framework and notes that the CySEC fulfils its duties in an efficient manner.

The strategic objective set in 2008 for the introduction of an improved supervisory framework for CIFs based on risk assessment, was actively pursued in 2009. The CySEC invited foreign experts to submit relevant proposals, including the model and the procedures for identifying, managing and/or preventing risks of firms under supervision as well as the risks which may arise within the CySEC in the exercise of such supervision. It is expected that the proposed model will allow us to ensure timely and efficient supervision, whilst at the same time achieving a significant reduction in the relevant workload of the Investment Firms Department.

Restoring investor confidence in the securities market, which has suffered a serious blow as a result of the stock exchange bubble of 1999-2000 in Cyprus, remains a steady and basic component of our strategy. In addition to promoting measures which contribute to the integrity and reliability of the market, such as the reform of the regulatory framework and the better supervision and management of risks, we launched in 2008 an investor education programme. The Advisory Committee which has been set up for this purpose, consisting of representatives of the competent Ministries, Supervisory Authorities and Consumers and Investors Associations, has already adopted a comprehensive financial education policy which includes the conduct, in 2010, of a market survey on the knowledge and concerns of investors regarding securities market issues. The results of the survey, which will be completed soon, will help us elaborate a more targeted policy for the education and protection of consumers.

We acknowledge that in the difficult conditions in which we operate, the effective and efficient internal operation of the CySEC is a fundamental requirement so that we can successfully fulfil our role. In this direction, we continue to attach particular importance to the qualitative development of our human resources through specialised training, mainly in the context of the relevant programmes offered by the Committee of European Securities Regulators (CESR).

We cannot disregard, of course, the acute problem of inadequate staffing of the CySEC in recent years, which we believe will be solved in a definite manner through the pursued budget independence of the CySEC.

At the same time, we actively consider and promote improvements in our internal systems and processes, aiming at increased productivity and safety. In this connection, it would be worth mentioning the automation of the Document Management System.

I have no doubt that everything we have achieved in 2009 is the result of the hard work, dedication and professionalism of the staff of the CySEC. The support of the Board, which maintained an excellent cooperation with the staff in pursuing our common objectives, has also been of great significance. I would like to express my appreciation and warmest thanks to every one for their invaluable services.

Georgios Charalambous
Chairman
Cyprus Securities and Exchange Commission



Section A

**Strategic Plan
General Review of Activities
Cyprus Securities and Exchange Commission**

Strategic Plan

According to the institutional framework governing the establishment and operation of the CySEC, its mission is to ensure and safeguard the operation of a fair, orderly, efficient and transparent securities market in Cyprus.

Within this framework, in July 2007, the Board of the CySEC set out its vision as follows:

«The Cyprus Securities and Exchange Commission, through its fair and effective supervision, should enjoy the respect of the supervised institutions, the other Supervisory Authorities both in Cyprus and abroad and the investors».

In order to achieve its vision and meet its legal obligations, the CySEC aims to achieve the following strategic objectives:

- to promote the reform of the regulatory and supervisory framework in order to protect investors and safeguard the smooth operation of the securities market;
- to ensure investors are well informed and protected and at the same time to upgrade the investor education system;
- to develop a regulatory framework that promotes competition, innovation, effectiveness and efficiency and attracts financially healthy and dynamic financial institutions; to contribute to the further enhancement of the reputation and credibility of Cyprus as a successful regional financial centre;
- to contribute to the sound organisation and operation of dynamic financial institutions that are able to fully meet their obligations emanating from the relevant regulatory framework;
- to ensure that the CySEC continues to operate with transparency, consistency, efficiency and effectiveness.

Strategic Plan

Sector	Strategic Objective	Objective Goal
Regulatory Framework	<ul style="list-style-type: none"> To promote the reform of the regulatory and supervisory framework in order to protect investors and safeguard the smooth operation of the securities market. 	<ul style="list-style-type: none"> To promote the reform and modernisation of the legislative, regulatory and supervisory framework of Cyprus in order to fully meet the European standards and the needs of the Cyprus securities market; To ensure convergence in the practical implementation of the European Directives and close cooperation with other European Supervisory Authorities.
Investor Protection	<ul style="list-style-type: none"> To ensure investors are properly informed and protected. To upgrade the investor education system. 	<ul style="list-style-type: none"> To set out high investor information standards; To set out high standards in relation to the obligations of financial institutions when transacting with the public; To ensure compliance with the new high standards of information by introducing and imposing dissuasive sanctions; To formulate and implement well targeted education programmes for investors regarding: <ul style="list-style-type: none"> The securities market; Financial products; Investor rights relating to their investments and the investment services available to them.
Competitive and Efficient Market	<ul style="list-style-type: none"> To develop the regulatory framework that promotes competition, innovation, effectiveness and efficiency and attracts financially healthy and dynamic financial institutions. 	<ul style="list-style-type: none"> To maintain the correct balance between regulation, supervision and enforcement, on the one hand, and the encouragement of healthy competition, development of initiatives and innovation in the securities market, on the other; To closely cooperate with supervisory and other authorities, as well as other market participants.

Sector	Strategic Objective	Objective Goal
	<ul style="list-style-type: none"> • To contribute to the further enhancement of the reputation and credibility of Cyprus as a successful regional, financial centre. 	
Organisation and operation of financial institutions	<ul style="list-style-type: none"> • To contribute to the sound organisation and operation of dynamic financial institutions which are able to fully meet their obligations emanating from the relevant regulatory framework. 	<ul style="list-style-type: none"> • To define capital adequacy levels and standards of organisation, staffing and management of financial institutions in order to ensure their stable and healthy operation and development; • To provide assistance to supervised financial institutions in order to ensure their smooth transition to the new regulatory framework.
Organisation and operation of the CySEC	<ul style="list-style-type: none"> • To maintain and further enhance transparency, consistency, efficiency and effectiveness in the operation of the CySEC. 	<ul style="list-style-type: none"> • To upgrade its internal organisation, systems and staffing in order to be able to respond to the continuing developments of the financial market in a timely, flexible, effective and efficient manner; • To incorporate impact assessment analysis in the decision making process of the CySEC concerning the introduction of new regulations and changes in supervision; • To apply the principle of transparency in the operations and decisions of the CySEC; • To upgrade the procedures of cooperation and consultation with supervised institutions, market participants and investors; • To formulate and implement a communications policy; • To upgrade the system of evaluation of the CySEC's performance and achievement of its stated objectives by the State and the investors.

General Review of Activities

Economic crisis? Financial Crisis? No matter how we call it, it has been devastating to credit institutions, investment firms and businesses and consumers across the world as well as on national economies at large. The economic and social costs are staggering with the overt cost of the support measures in the United States, Europe and Japan estimated at over US\$9 trillion. In the United Kingdom, it has been cited as the fourth most expensive fiscal event in British history after the Napoleonic wars and the two World Wars. Despite the fact that the world financial crisis reached its peak in 2008, its impact on the markets, the businesses and the public, has also continued to be particularly felt during 2009 which was also a very difficult year.

The Supervisory Authorities of the financial sector in the European Union and the rest of the world were called upon to play a multifaceted role since they had to keep the impact of the financial crisis within manageable limits, assist businesses in overcoming the effects of the crisis as well as remaining stable after the withdrawal of the support measures and help investors understand the situation in order to take the appropriate decisions to protect their interests and regain their confidence.

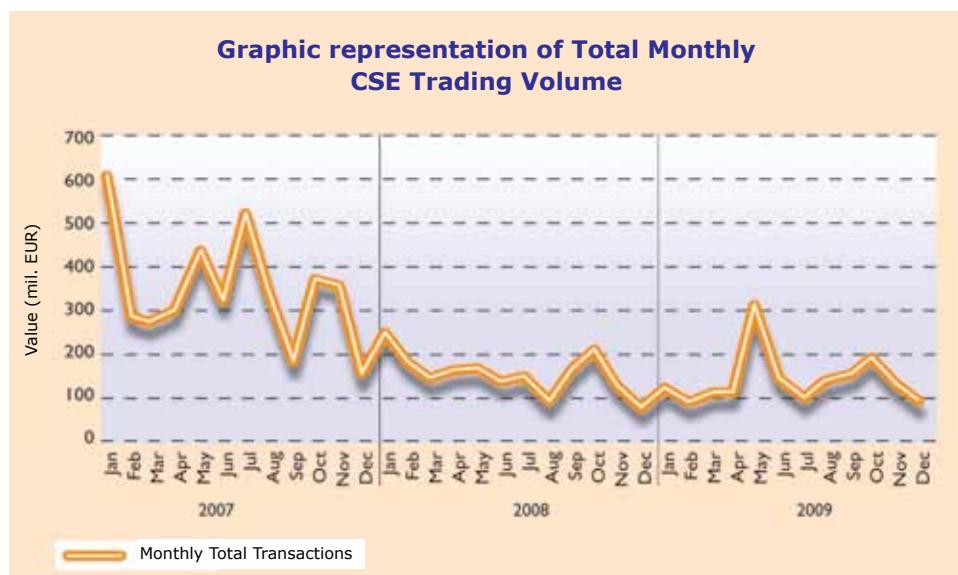
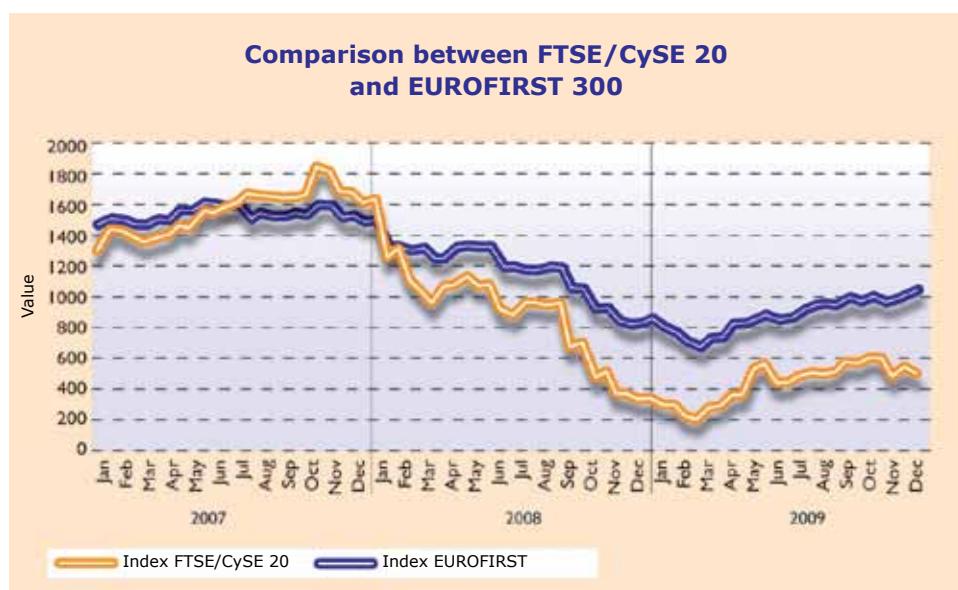
As stated in the 2008 Annual Report of the CySEC, the international financial crisis had a rather limited impact on the profitability of the financial institutions in Cyprus partly due to the financial institutions' relatively limited exposure to investments in structured and other so called "toxic" products. Another contributing factor for this positive result was the conservative policies prescribed by the supervisory authorities and adopted by these institutions, in the placement of their funds.

As a result, however, of the close commercial and investment relations of Cyprus mainly with the United Kingdom, Greece and Russia and the ongoing global recession, the impact of the international financial crisis was particularly noticeable in the construction and tourism sectors during the second half of 2009. The International Monetary Fund, in the recent preliminary report⁶ of the team that visited Cyprus in June 2010 for the Article IV Consultations, forecasts that the Cypriot economy shall enter a stage of mild recovery in 2011 which will be followed by strong growth in the subsequent years.

The course of the Cyprus securities market continued to reflect that of the European markets and especially that of the Athens Stock Exchange. As a result of the recovery observed in 2009 in the Athens Stock Exchange, as well as in the European securities markets, a significant rise in share

⁶ *Cyprus—2010 Article IV Consultation: Preliminary Conclusions* - <http://www.imf.org/external/np/ms/2010/070510.htm>

prices was also observed in the Cyprus Stock Exchange with the FTSE/CySE20 index in 2009 presenting an 43.1% increase (from 379,80 on 2nd January 2009 to 543,53 on 31st December 2009). The FTSE/CySE20 index in the past 3 years has shown almost the same trends as the EURO FIRST 300 index albeit exhibiting greater volatility. Both the fall observed in 2008 in the FTSE/CySE20 index and the rise observed in 2009 were of course greater compared to the EURO FIRST 300 index. The trading volume of the Cyprus Stock Exchange in 2009 was generally running at low levels mainly due to diminished investor confidence as a result of the financial crisis.



Objectives and Challenges

Like in 2008, the evaluation of the achievement of the strategic objective set by the Board of the CySEC in July 2007 has focused on the following four major areas:

- The upgrading of the regulatory and supervisory framework in order to meet the European standards and the needs of the Cyprus securities market;
- The continuous reinforcement of the means for investor protection;
- The development of a more competitive and efficient securities market that ensures the operation of robust financial institutions; and
- The transparent, consistent, efficient and effective operation of the CySEC.

Upgrading of the regulatory and supervisory framework

As stated in previous Annual Reports, the accession of Cyprus to the European Union and the harmonization of the national legislation with the Acquis Communautaire have significantly helped in the modernisation and upgrading of the regulatory and supervisory framework of Cyprus in a relatively very short period of time. The transposition into Cyprus Legislation of the European Union Directives, which comprised the core of the five-year "Financial Services Action Plan" of the European Council, has led to the creation of a regulatory and supervisory framework for transferable securities in Cyprus,, which is comparable to that of more financially advanced countries. Cyprus is now at the stage of acquiring experience and know-how from other Supervisory Authorities and to this end, it cooperates closely with them under the auspices of CESR.

Meanwhile, as a result of the financial crisis and the consequent promotion of new regulations at European level, e.g. the reform of the capital requirements for financial institutions, the supervision of credit rating agencies and the markets for derivatives and structured products as well as the strengthening of the Supervisory Authorities in terms of the imposition of stricter sanctions, relevant European Directives/Regulations have been issued or shall be issued soon which have been transposed or will soon be transposed into the national legislative framework.

Moreover, in the context of its pursuit for the protection and promotion of investors' interests, the CySEC sees to the continuous upgrading of the legislative measures and the evaluation of the effectiveness of their implementation and supervision. Five Regulatory Directives and more than eighteen circulars were issued in 2009 by the CySEC in order to enhance the quality and effectiveness of the implementation of the legislation.

The replacement of the Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Laws of 2001-2007 [N.64(I) of 2001 as amended] by the Cyprus Securities and Exchange Commission Law of 2009 [N.73(I)/2009] is considered to be another significant step towards the further upgrade of the national regulatory and supervisory framework.

In view of the above and regardless of the fact that Cyprus as well as other Member States are in the process of transposing the recent European Directives into their national legislative framework, we believe that our objective to upgrade the regulatory and supervisory framework in Cyprus, has been to a great extent achieved. Currently, along with the transposition of the new European Directives both in Cyprus and in the European Union, emphasis is being placed on the effective practical implementation of the regulations, by means of improving the supervisory systems and achieving convergence in the implementation of EU legislation in EU Member States in order to overcome potential obstacles in the operation of the Single European Market in Financial Services.

Continuous reinforcement of the means for the protection of investors

As also stated in its previous annual report, the CySEC believes that the strategic objective to safeguard high investor information and protection standards has been achieved. Through the upgraded national regulatory framework, which to a large extent comprises a transposition of the European Union Directives and Regulations into national law, high standards have been set regarding investor information and the obligations of financial institutions when transacting with investors.

The compliance of issuers of transferable securities traded on the Cyprus Stock Exchange and of Investment Firms with their obligations emanating from the new legislation is to a great extent safeguarded through the imposition of dissuasive sanctions provided for in the CySEC Law as well as in the other specific legislations.

The armoury of the CySEC as regards investor protection has also been enhanced through the new powers of the new CySEC Law which came into force in July 2009, which provides that the CySEC has the power inter alia:

- To request the cessation of a practice which is contrary to the legislation under its supervision;
- To apply to the competent court of law for an order to block, encumber, freeze or prevent the alienation of or a transaction involving certain assets.

The enhancement of investor protection through the provision of better financial information is on the list of priorities of the CySEC. A significant step in this direction was the establishment in 2007, of an Advisory Committee comprising representatives from all Supervisory Authorities of the financial sector, the consumers and other bodies, with the mandate to design and submit proposals for the creation of investor education programmes. It is worth mentioning that various options have been considered by the Advisory Committee with the priority being to introduce investor education programmes in schools thus achieving investor education from an early age.

As a first step in this endeavour, it was decided to conduct a market research (which shall be completed in 2010) in order to:

- establish the level of knowledge of the Cypriot public of issues relating to the securities market and investments in transferable securities;
- identify and explore the parameters, other than knowledge, which affect the trends, decisions and actions of the public regarding investments in transferable securities;
- identify the correct direction and priorities of the Investor Education Programmes by identifying the population groups with the greatest need for education;
- check the identifiability of the CySEC and investors' level of trust therein.

Development of a more competitive and efficient securities market

Our objective for the development of a more competitive and efficient securities market in Cyprus, which promulgates the operation of robust financial institutions, has also been to a great extent achieved through the transposition of the European Legislation. Furthermore, the ease with which financial institutions licensed by one EU Member State may provide their services in other EU Member States through simple notification procedures without further licensing, paved the way for the operation of the free market. While this promotes healthy competition in the market, it creates, at the same time, the need for vigilant monitoring and supervision of the securities markets and for enhanced cooperation between the Supervisory Authorities. The need for close cooperation between the Supervisory Authorities is considered of utmost importance now especially after the outbreak of the international financial crisis.

The increasing number of Cypriot Investment Firms (CIFs) under the supervision of the CySEC, which increased from eighteen at the end of 2003 to sixty-eight at the end of 2009, and the addition of new areas of responsibility for the CySEC, such as the licensing and supervision of regulated markets (Cyprus Stock Exchange) and credit rating agencies without the respective increase in the CySEC's personnel, constitutes a challenge for the Department of Granting Licences and Supervising the Investment Firms, Regulated Markets and Credit Rating Agencies.

Based on the information and data available, it seems that the interest of mainly foreign organisations, to obtain an operating licence for the provision of investment services through Cyprus, remains undiminished. Therefore, the rate of increase of licences granted has increased in 2010 reflecting to a great extent the increased inflow of applications.

In view of the rapid market growth, the CySEC took a number of measures to ensure the smooth operation of CIFs: it has organised in cooperation with



the Investment Firms Association, a training seminar for CIFs regarding the effective implementation of the new legislation in relation to the prevention of money laundering and terrorist financing, it has set up an electronic communication line to address any questions that may arise and it has strengthened the supervision as regards capital adequacy levels and the standards of organisation, staffing and management of CIFs.

In those cases where the CySEC found that certain CIFs did not comply with their legal obligations, having assessed the seriousness of the violations it set to a number of CIFs a deadline for compliance, while to others it sent a letter drawing their attention to their legal obligations. Administrative fines were imposed in three cases for non-compliance. The operating licence of one CIF was also suspended and the operating licences of two CIFs were terminated.

The prudent management of companies listed on the Cyprus Stock Exchange, according to the principles of the Corporate Governance Code, remained in the list of priorities of the CySEC. More specifically, the CySEC continued to promote the upgrading of the Corporate Governance Code and the effective implementation of three main provisions, namely, the sufficient staffing and balanced composition of the Boards of Directors, the establishment and effective operation of the Board's committees and the levels of transparency regarding the remuneration of directors and officials of listed companies. Transparency is promoted within the framework of the relevant Recommendations of the European Commission on issues pertaining to the remuneration of directors.

The implementation of the inspection programme as to the compliance of companies listed on the Cyprus Stock Exchange, both as regards their legal obligation to disclose all material information and in particular their Annual and Interim Financial Statements, the Indicative Results and the Interim Management Report, and the compliance of their Annual Financial Statements with the International Financial Reporting Standards, has continued in 2009. As a result of these inspections, violations have been

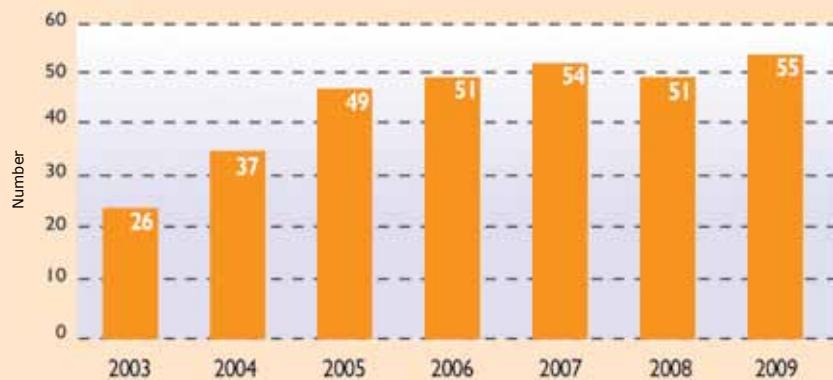
identified and administrative fines have been imposed on twenty issuers. Letters were also sent to a large number of issuers drawing their attention to the provisions of the legislation.

The monitoring of the compliance of foreign Undertakings for Collective Investment in Transferable Securities (UCITS) and their representatives in Cyprus with their legal obligations to provide investors and the CySEC with adequate information also continued throughout the year.

With the recent amendment of the tax regime governing UCITS, it is expected that a number of applications shall be submitted soon for the registration of national UCITS and their management companies.

Within the framework of ensuring compliance with the provisions of the Insider Dealing and Market Manipulation (Market Abuse) Law, a total of forty-one cases were investigated (twenty in 2008), in thirteen of which administrative fines were imposed and in another three letters of reprimand were sent.

Number of Foreign Harmonised UCITS



Number of Foreign Harmonized UCITS SUB-FUNDS



<i>Investigations for potential violations concerning</i>	<i>2009</i>	<i>2008</i>
• the Market Abuse Law	41	20
• the CySEC Law – Power to collect information, entry and investigation	3	5
• Provision of investment services by non-approved IFs	7	1
• Complaints submitted by investors	19	2
• Obligation to submit a public takeover bid	6	3
• Continuous obligations of issuers, etc.	5	0
Total	81	31

Upgrading of the internal organisation and operation of the Cyprus Securities and Exchange Commission

The successful response of the CySEC to the challenges arising from the international crisis and the rapid growth of the market depends on the continuous upgrading of its internal organisation and operational systems, as well as on the adequacy of its human resources. Despite the persistent efforts of the CySEC to resolve the problem of it being inadequately staffed, unfortunately it was not possible during the year under review for the required new positions to be approved and thus be incorporated in the CySEC budget in order to achieve this goal through further recruiting. The efforts of the Commission continued with the same undiminished intensity also during 2010 and as a result thereof, the issue was re-examined and the additional budget for the 2010 under which a small number of new positions is created has been approved during the meeting of the House of Representatives on 8th July 2010. We hope that the problem of inadequate staffing will be conclusively resolved at the beginning of 2011.

Following this CySEC shall proceed with the implementation of the Board's decision for the promotion of a study for the improvement of both the internal organisational structure of the CySEC and the remuneration system of its staff. The aim is for the CySEC to be able to compete on equal terms with other organisations and attract and maintain high calibre employees with the necessary competence, experience and know-how.

The employee education programme has been updated, with emphasis placed on enhancing specialisation, primarily through the regular participation of employees in CESR working and expert groups as well as in training seminars organised by CESR or in cooperation with the other two committees of the financial sector of the European Union, namely CEBS⁷ and CEIOPS⁸.

⁷ Committee of European Banking Supervisors

⁸ Committee of European Insurance and Pension Supervisor

Within the framework of the continuous study and improvement of the internal systems and procedures in order to achieve the best possible result based on the resources available, the CySEC assigned to external experts the design and implementation of a Document Management System which will form the core of the management of the documents and operations of the CySEC. The full implementation and commencement of operation of this system is at the final stages.

During 2009, the internal study for the introduction of a risk-based supervision framework for CIFs was completed and the members comprising the Specifications Committee as well as the Evaluation Committee for the preparation and implementation of the said supervision framework for CIFs have been appointed. For the completion of the study, significant information and data provided by the relevant experts have been taken, *inter alia*, into account. This project will be implemented in two stages. The first stage comprises:

- A detailed diagnosis of the existing supervisory framework of the Investment Firms Department in relation to the risks entailed.
- Development of a risk-based supervision framework based on the requirements for the supervision of CIFs which will include the procedures, evaluation criteria, methodologies and tools to be applied.
- Construction/Implementation of the supervision model and development of the skills and expertise of the staff of the Investment Firms Department for its implementation.
- Preparation of the technical specifications for the automation of the above framework and the preparation of a software/database which will execute the following tasks:
 - Risk management based on the proposed framework mentioned above;
 - Facilitate the execution of on-site risk-based audit which should include the procedures, methodologies and tools to be followed and will present them in the form of audit programmes and/or other reports.

The second stage will comprise:

- Automation-Preparation/Design of relevant software.
- Practical implementation of software and training of users.
- Maintenance, support and upgrading.

Furthermore, the design regarding the automation of the procedures and applications for the recording/entry and analysis of statistical data on CIFs has been completed in 2009. The data, which will be kept in a special electronic file, include, *inter alia*, the data on shareholders, managers, officials as well as the economic indices and magnitudes.

As stated in the previous annual report, the objective to implement the principle of transparency in the operations and decisions of the CySEC is considered to have been achieved to a great extent. Within the framework of a comprehensive Communications Policy, it has been decided to publicly announce all the decisions of the Board with which administrative sanctions are imposed regardless of type or amount of fine.

The CySEC applies a comprehensive system of consultation and cooperation with the supervised institutions, which includes regular contacts with all agencies involved. Within the framework of this policy, in 2009, the CySEC published seven Consultation Papers.

The close cooperation of the CySEC with the supervisory authorities both in Cyprus and abroad continued in 2009 with very satisfactory results. The communication with the other supervisory authorities of the financial sector in Cyprus is conducted at a bilateral and multilateral level within the framework of the Quadrilateral High Level Committee, which met three times in 2009. During the said period, the Quadrilateral High Level Committee dealt with a wide range of issues such as the drawing of a common strategy as regards the interpretation and handling of issues of evaluation of an acquisition of participating interest in financial institutions, the combating of money laundering, the introduction of new legislative regulations regarding Collective Investment Schemes as well as the developments regarding supervised institutions. The cooperation with the supervisory authorities abroad also takes place either at a bilateral level through the signing of Memoranda of Understanding or at a multilateral level within the framework of CESR or IOSCO⁹.

As also stated in the previous annual report of the CySEC, the report of the International Monetary Fund on the assessment of the financial sector of Cyprus (Financial Sector Assessment Programme 2008) was published on 1st June 2009¹⁰. The findings of the assessment of the CySEC, which was carried out based on the International Organisation of Securities Commissions – IOSCO Core Principles of Securities Regulation¹¹ were very positive. The CySEC was found to fully implement 25 out of the 30 Core Principles, while it broadly implements another 3 and partially implements the remaining 2 Principles. With the passing of the new CySEC Law this has been further improved with only 2 Principles not being fully implemented (1 is broadly implemented and 1 is partially implemented).

⁹ International Organization of Securities Commissions

¹⁰ <http://www.imf.org/external/pubs/cat/longres.cfm?sk=22990.0>

¹¹ <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD265.pdf>

Cyprus Securities and Exchange Commission

In order for a securities market to operate smoothly, effectively and efficiently and at the same time safeguard, *inter alia*, the adequate protection of investors, it needs to have rules of operation and a robust legislative framework. This legislative framework governs the operation of both the securities market as such, as well as of those who have a stake in it, for instance, the issuers of securities (public companies), investment firms, investment funds as well as investors. The supervision of the compliance with these rules and the legislative framework in general, is assigned to a supervisory authority, which is entrusted with the duty to monitor the market and take both preventive and dissuasive measures for the achievement of the legislative aims and objectives.

Historical background 1996 - 2000

The CySEC was initially established in 1996 by virtue of Article 8 of the Securities and the Cyprus Stock Exchange Laws and had been characterised by the Law Office of the Republic as an "Administrative Collective Supervisory Body". It was a five-member Commission comprising the Government Commissioner, the Central Bank Representative and three other members, all of whom were non-executive.

Until the end of 1999, the CySEC remained understaffed employing only four persons (three officers and one assistant secretarial officer). Today, it employs forty-two persons (the Chairman, the Vice-chairman, six senior officers, twenty-three officers and eleven assistant secretarial officers).

It should be noted that until 2000 there existed only two Laws governing the securities market [the Securities and the Cyprus Stock Exchange Laws and Regulations (including the Public Takeover Bids and Company Mergers Regulations), and the Possession, Use and Disclosure of Privileged Confidential Information Law]. This was a stock exchange-oriented legislation with most supervisory competences, including the power to impose sanctions, being granted to the Cyprus Stock Exchange. It should be noted that, according to the legislation, the consent of the CySEC was also required before any sanctions could be imposed. The power of the CySEC to unilaterally approve and impose sanctions was extremely limited. However, it had the power to enter and conduct a search, a power not granted to the Cyprus Stock Exchange. This diarchy in competences and powers resulted in the following paradox: if the CySEC were to find following an investigation a potential violation, it was obliged to report it to the Board of the Cyprus Stock Exchange in order for the latter to consider it and if it deemed it necessary to impose sanctions since the CySEC did not have the power to impose sanctions itself. In case the Board of the Cyprus Stock Exchange would not agree with the findings or the conclusions of the CySEC, the latter's hands were tied.

Unfortunately, we had to go through the traumatic events of the 1999/2000 stock exchange bubble to finally understand and appreciate that even small markets like that of Cyprus need a proper and comprehensive institutional framework as well as a competent supervisory authority with the necessary powers to efficiently and effectively discharge its duties and responsibilities.

2001 – July 2009

The CySEC was established on 20 April 2001 pursuant to the provisions of the Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Law, with a clearly defined structure, responsibilities, powers and organisation. As a result, the old Commission was abolished and its competences were transferred to the new CySEC.

The new CySEC is a public corporate body. It is assigned the responsibility of supervising the securities market, ensuring its smooth operation and methodical growth as well as monitoring the transactions in transferable securities carried out in the Republic. Article 26 of the CySEC Law and the laws which were subsequently passed clearly define the individual powers and responsibilities granted to the CySEC. These briefly comprise the licensing of CIFs, Organised Markets, UCITS and UCITS Management Companies, the supervision and monitoring of the compliance of these institutions with their legal obligations and the approval of Prospectuses and Public Takeover Bid Documents. They also include the prevention and repression of insider dealing as well as market manipulation actions.

The CySEC is an independent public supervisory authority and is one of the five¹² Authorities supervising the financial sector in Cyprus.

The CySEC is managed by a five-member Board which comprises the Chairman and the Vice-Chairman, who are employed on a full time and exclusive basis, and three other members. A representative of the Governor of the Central Bank is present at the Board meetings and has the right to introduce issues for discussion on the agenda, participate in the discussions and express his opinion but has no voting right.

The members of the Board are appointed by the Council of Ministers on the suggestion by the Minister of Finance. They serve a five-year term with the exception of the Vice-Chairman and two of the other members who were appointed for the first time when the Law came into force and who served a four-year and a three-year term respectively so as to ensure the continuity in the composition of the Board. The term of office is renewable for another five years.

July 2009 - today

On 10 July 2009, the new Cyprus Securities and Exchange Commission Law of 2009 (N.73(I)/2009) (the "Law") came into force abolishing the Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Laws of 2001 to 2007.

Contrary to the past, the CySEC now has the necessary tools (both dissuasive and repressive) to ensure the compliance of the supervised institutions

¹² The five authorities are: the Central Bank of Cyprus, the Cyprus Securities and Exchange Commission, the Insurance Companies Control Service, the Authority for the Supervision and Development of Cooperative Societies and the Authority for the Supervision of Professional Pension Funds.

with the relevant legislative framework the supervision and enforcement of which has been assigned to it. When a violation is established, the CySEC has now the power to impose sanctions. The Legislator, having recognised the gravity of some types of violations, has provided for the power to impose very stringent administrative and criminal sanctions. The various legislations provide for administrative fines up to approximately €850,000 (or double the amount of the gain). The amount of the fine, i.e. €850,000, doubles in case of a repeat offence. Criminal sanctions provide for imprisonment up to 10 years and/or a fine up to €170,000. The powers of the CySEC have been indeed enhanced, especially when compared to the regime of its early years when fines did not exceed a few thousand pounds and imprisonment was for a maximum of 7 years.

Further to the above, under the new Law, the CySEC has now the following new powers which are considered to be very significant:

- To proceed with on the spot confiscation of books and documents in case their holders refuse to avail them to the CySEC;
- To request the cessation of a practice that is contrary to the legislation under its supervision;
- To apply to the competent court of law for the issue of an order to block, encumber, freeze or prevent the alienation or the transaction involving certain assets;
- To collect information and conduct inspections and investigations on behalf of other supervisory authorities abroad.

Furthermore, today the CySEC is much better equipped in order to successfully discharge its duties and uses cutting edge technology to monitor and supervise in real time the transactions carried out on the Cyprus Stock Exchange.

We hope that soon, with the complete implementation of the Documents Management System and the necessary amendment of the institutional framework, it will be possible to electronically submit forms and documents to the CySEC and there shall be further compliance with the environmental policy of both the CySEC and the government.

Despite the fact that the CySEC is today much better staffed compared to the past, it should be further empowered with human resources since it has been assigned with a great number of other duties and responsibilities and the number of the supervised institutions has increased significantly. The aim of the CySEC is to achieve full independence as regards budget issues.

European Dimension

At this point, reference should be made to the European Dimension and the European framework within which the CySEC is called to operate.

The five-year «*Financial Services Action Plan*», adopted in 2000 in Lisbon, provided for the complete modernisation of the regulatory and supervisory framework for transferable securities in the European Union, through the Commitology process. This provided, *inter alia*, for the issue of new or the amendment of existing European Directives mainly in the areas of Market Abuse, Prospectuses, Markets and Financial Services (MiFID) and Transparency.

In February 2001, the Committee of Wise Men chaired by Baron Alexandre **Lamfalussy**, having outlined in its report the several shortcomings in the legislative system on transferable securities in the European Union, put forward its recommendations for the Regulatory Reform of the Financial Services Sector in the European Union. As a result of these recommendations, the ***four-level approach*** was adopted and the ***European Securities Committee (ESC)*** which primarily has a regulatory function and the ***Committee of European Securities Regulators (CESR)*** which has a coordinating and advisory function and promotes the harmonised implementation of the Directives by the Member States, have been established. Cyprus is represented in the European Securities Committee by the Ministry of Finance and in CESR by the CySEC.

Based on the above approach and especially on Levels 3 and 4, Member States are obliged, on the one hand, to satisfy the European Commission as regards the correct transposition of the European Directives into their National Legislation and, as supervisory authorities, on the other hand, to satisfy CESR (which is accountable to and is obliged to regularly report to the European institutions) as well as our peers that in practice, we correctly interpret and implement the European Directives. This is of particular importance in terms of the efficient use of our powers in order to ensure and, when necessary, enforce compliance. The latter is extremely important, particularly now that the legislative work has almost been completed. In a single market in which the use of a “passport” is permitted for the free movement of products and services from one Member State to another, consistent implementation and, where necessary, the enforcement of European legislation is crucial. Otherwise, there is a great danger of what is referred to as ***«Regulatory Arbitrage»*** to occur where the State imposing fewer requirements or lower sanctions or adopts a more favourable approach is selected by the institutions as their home state. Therefore, in such a single market, the inconsistent interpretation and implementation of European Directives entails very high risks.

In 2008, the study of the reorganisation of the Legislative and Supervisory framework in the European Union regarding the financial institutions and the markets had been assigned to the High-Level Group under the chairmanship of Mr. **De Larosière**. Very briefly, the mandate of the **De Larosière** Group covered the following areas:

- The organisation of the supervision of financial institutions and markets in the EU;
- The strengthening of the cooperation in Europe as regards financial stability oversight, early warning and crisis management mechanisms;
- The cooperation between European supervisory authorities globally;
- The analysis and submission of recommendations on the regulation of financial markets.

The ***De Larosière***¹³ Report, as it is known, having analysed the causes of the recent financial crisis, set out the Group's recommendations on the priority areas that need regulatory change and pointed out, inter alia, the need for stronger macroeconomic policy, the reform of the capital requirements of credit institutions and Investment Firms, the supervision of credit rating agencies and derivatives and structured products markets, as well as the strengthening of supervisory authorities as to the imposition of stricter sanctions. In addition, the said Report proposes a new supervisory structure for the European Union which separates the macroeconomic from the microeconomic element and upgrades the 3L3 Committees into EU Authorities with considerably expanded competences.

Responding to the world financial crisis and the findings and recommendations of the ***De Larosière*** Group, the European Commission has suggested and the European Parliament and the European Council had up to this moment adopted a series of measures the most significant of which are:

- The Regulation on the licensing and supervision of ***Credit Rating Agencies***¹⁴;
- The second amendment of the ***Capital Adequacy Directive***.

The following measures are at the final stage of consultations before the European Parliament and the European Council and are expected to be adopted soon:

- A package for the reorganisation of the supervisory system in the European Union – establishment and operation of the ***European Systemic Risk Board***¹⁵ and the ***European Supervisory Authorities***¹⁶;
- For the ***Alternative Investment Fund (including hedge fund) Managers***¹⁷;
- The third amendment of the ***Capital Adequacy Directive***¹⁸.

¹³ ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf

¹⁴ Regulation 1060/2009, OJ L 302, 17.11.2009, p.1.

¹⁵ COM (2009)499 final of 23.9.2009

¹⁶ European Banking Authority [COM(2009) 501 final], European Insurance and Occupational Pensions Authority [COM(2009) 502 final], European Securities and Markets Authority [COM(2009) 503 final], all dated 23.9.2009

¹⁷ COM (2009)207 final

¹⁸ COM (2009)362

The proposals of the European Commission regarding the improvement of the regulatory and supervisory framework as regards, inter alia, the Derivatives Markets, MiFID and the Capital Adequacy Directive (fourth amendment) are also expected soon.

Legal Framework

By virtue of the Law (both of 2001 and the new Law of 2009), the general supervision of the securities market and of the transactions in transferable securities carried out in the Republic is assigned to the CySEC.

The CySEC is also responsible, under the Law, to safeguard the smooth operation and methodical development of the securities market and to monitor the transactions in transferable securities carried out in the Republic. The scope of the supervision also extends outside the Republic with regard to transactions carried out by Investment Firms that are under the supervision of the CySEC. The CySEC exercises the powers and competences assigned to it by the legislation and its task is to study, suggest measures to other competent authorities and take measures to safeguard the integrity of the financial transactions and generally to safeguard the effectiveness and fair operation of the securities market.

The main activities of the CySEC are set out in Article 25 of the Law and may be summarised as follows:

- to grant operating licences to CIFs, Regulated Markets, Credit Rating Agencies, UCITS and UCITS Management Companies and to suspend and revoke such licences;
- to supervise and oversee the operation of the Cyprus Stock Exchange and of the organised markets of the Republic and the transactions carried out therein;
- to supervise and oversee companies listed on a regulated market, CIFs, Credit Rating Agencies, UCITS and UCITS Management Companies;
- to carry out inspections of companies listed on a regulated market, CIFs, Credit Rating Agencies, UCITS and UCITS Management Companies;
- to carry out investigations which are necessary for the exercise of its legal competences and on behalf of other competent authorities abroad;
- to request and collect information which is necessary or useful for the exercise of its legal competences and to demand with a request in writing the provision of information from any natural person, legal entity or body that is considered able to provide such information;
- to impose administrative and disciplinary sanctions provided for by the Law;

- to request the cessation of a practice which is contrary to the legislation under its supervision;
- to apply to the competent court of law for an order to block, encumber, freeze or prevent the alienation of or the transaction involving certain assets;
- to issue regulatory Directives and Decisions;
- to cooperate and exchange data and information with other supervisory authorities in the Republic, with competent supervisory authorities abroad and with other organisations.

Further to the above responsibilities and by virtue of other legislations, the exercise of the powers and responsibilities provided for in the following Laws has also been assigned to the CySEC:

- The Public Offer and Prospectus Law of 2005;
- The Insider Dealing and Market Manipulation (Market Abuse) Law of 2005;
- The Public Takeover Bids Law of 2007;
- The Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law of 2007.

The Legislations concerning the responsibilities and powers of the CySEC are listed in detail in Annex 1 – Section C.

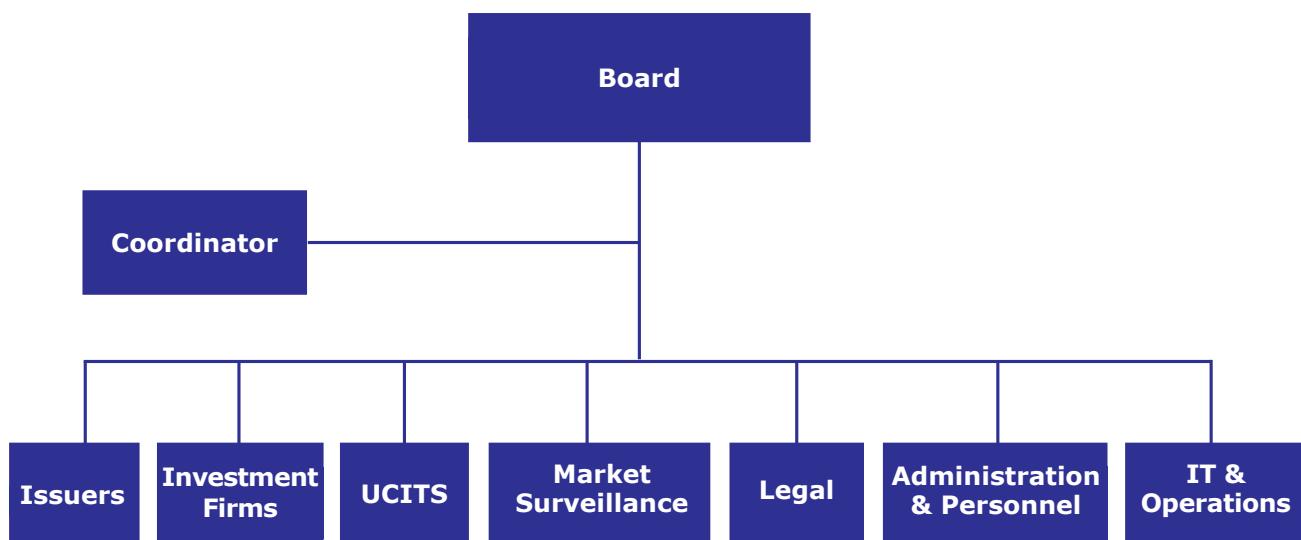
Internal Organisation

By the end of 2009, the CySEC employed a total of forty-four persons (42 in 2008), namely the Executive Chairman and the Executive Vice-chairman, five senior officers (5 in 2008), twenty-six officers (24 in 2008) and eleven assistant secretarial officers (11 in 2008).

The operations of the CySEC are divided into the following seven departments:

- A.** Department for Granting Licences, Listing and Continuous Obligations of Issuers;
- B.** Department for Granting Operation Licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies;
- C.** Department for Granting Operation Licences and Supervision of UCITS and UCITS Management Companies;
- D.** Department for Market Surveillance and Investigations;
- E.** Legal Department;
- F.** Administration and Personnel Department;
- G.** IT and Operations Department.

Organisational Structure



Department	2009			2008		
	Senior Officers	Officers	Assistant Secretarial Officers	Senior Officers	Officers	Assistant Secretarial Officers
Coordinator	1	1		1	1	
Issuers	1	6	1	1	6	1
Investment Firms ¹⁹	1	8	3	1	8	3
UCITS		2			2	
Market Surveillance and Investigations	1	4	2	1	3	2
Legal ²⁰	1	3		1	2	
Administration and Personnel		1	4		1	4
IT & Operations ²¹		1	1		1	1
	5	26	11	5	24	11

¹⁹ In 2009, the Investment Firms Department employed one temporary assistant secretarial officer (1 in 2008)

²⁰ In 2009, the Legal Department employed one officer under a fixed-term contract (1 in 2008)

²¹ In 2009, the IT & Operations Department employed one officer under a fixed-term contract (1 in 2008)

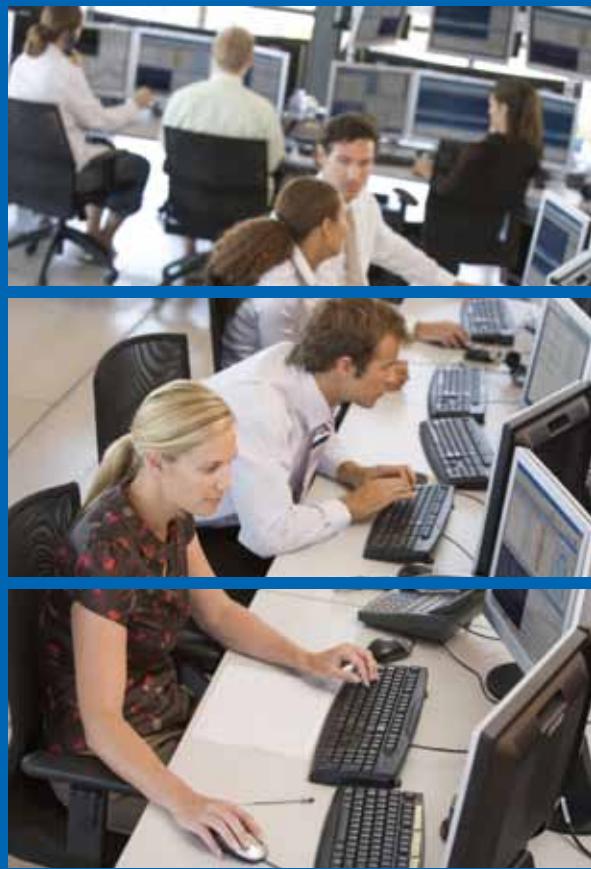
Activities of the Cyprus Securities and Exchange Commission

The CySEC has the following activities:

- the monitoring of the compliance of companies listed on the Cyprus Stock Exchange/organised market with their continuous obligations in general and in particular with those related to annual accounts, preliminary results, corporate governance, the timely and complete disclosure of material information etc.;
- the approval of prospectuses for public offers of transferable securities or their admission for trading on a regulated market;
- the supervision of public takeover bids;
- the granting of operating licences to CIFs or Investment Firms from third countries for the establishment of a branch in the Republic and the monitoring of their compliance with the provisions of the law governing their operation;
- the granting of operating licences to regulated markets and the monitoring of their compliance with the provisions of the law governing their operation;
- the granting of operating licences to Credit Rating Agencies and the monitoring of their compliance with the provisions of the law governing their operation;
- the exercise of its competences emanating from the law for the prevention and combating of legalisation of proceeds from illegal acts or activities;
- the granting of operating licences to UCITS, UCITS Management Companies or Management Companies from third countries and the monitoring of their compliance with the provisions of the law governing their operation;
- the examination of notifications for the cross-border provision of services and the establishment of a branch by a Management Company of an EU Member State in the Republic;
- the examination of notifications and applications for the marketing through Distributors in the Republic of units of foreign UCITS and the supervision and implementation of the Undertakings for Collective Investment in Transferable Securities (UCITS) and Related Issues Law;
- the investigation of cases regarding, inter alia, CIFs or companies listed on the Stock Exchange or a regulated market;
- the monitoring of the stock exchange market and transactions;
- the supervision and enforcement of the Insider Dealing and Market Manipulation (Market Abuse) Law;

- the review and/or drafting of legislation governing the securities market as well as the study for the preparation and submission of bills;
- the study, preparation and issue of Directives pursuant to the legislation on both the CySEC and the securities market;
- administrative issues regarding the operation of the CySEC;
- the performance of studies on issues relating to the CySEC and the securities market in general;
- investor education as regards securities market issues;
- the participation in committees and technical committees at a national and European Union level which fall within the competences of the CySEC.

An overview of the duties of the individual Departments is presented in Annex 2 – Section C.



Section B

Reports by Departments

Department for Granting Licences, Listing and Continuous Obligations of Issuers

1. Consideration of applications for approval of Prospectuses for public offer or listing of securities on a regulated market – Monitoring of the implementation of the Public Offer and Prospectus Law

The Department for Granting Licences, Listing and Continuous Obligations of Issuers, within the framework of the Strategic Plan adopted by the CySEC Board in 2007, has the following objectives:

- To promote the reform of the legislative, regulatory and supervisory framework that governs Issuers through its contribution to the issue of the CySEC Directives, to the identification of points of law that need to be amended and the review of proposed amendments;
- To ensure convergence in the implementation of European Directives and close cooperation with other European Supervisory Authorities on matters regarding Issuers through the regular participation of the Department officers in the relevant committees and working groups of CESR.

Pursuant to the Public Offer and Prospectus Law of 2005 – N.114(I)/2005, the CySEC is the competent Supervisory Authority for the approval of Prospectuses for public offers or listing of securities on a regulated market where Cyprus is the Member State of origin of the Issuer. Pursuant to this Law the CySEC approves the Prospectus provided that its content complies with the provisions of the Law and the Regulatory Acts issued by virtue of that Law.

It is noted that in accordance with the legislative framework in force (the Cyprus Stock Exchange (Amending) Law) it is the Cyprus Stock Exchange Board's responsibility to ensure that the issuer complies with the basic conditions for listing on the Cyprus Stock Exchange (CSE).

1.1 Applications for approval of Prospectuses for public offer or listing of transferable securities on a regulated market

The consideration of applications for approval of Prospectuses pursuant to the legislative framework in force includes ensuring that the Prospectus is complete in terms of containing all the necessary information required by the Public Offer and Prospectus Law and Regulation 809/2004 of the European Commission. This information should be consistent and comprehensible.

In 2009 the CySEC received nine applications (2008 – 12) for approval of Prospectuses for public offer and/or listing of transferable securities in a regulated market pursuant to the Public Offer and Prospectus Law. The CySEC has examined these applications, as well as two pending applications which were submitted in 2008. The CySEC approved nine of them (2008 – 14 approvals and 2 rejections). The examination of the other two applications submitted in 2009 was completed in 2010.

In 2009 the CySEC received five applications (2008 - 11) for approval of a Supplementary Prospectus pursuant to the aforesaid Law. The CySEC examined these applications and approved them all.

One of the above approved Prospectuses and the respective Supplementary Prospectuses (2008 - 2 Prospectuses and their respective Supplementary Prospectuses) were communicated, upon request of the Issuers, to the competent Supervisory Authorities of two host EU Member States, where a public offer of the same transferable securities and/or listing on a regulated market would have also taken place.

1.2 Monitoring of the compliance with the Public Offer and Prospectus Law

Within the framework of the Public Offer and Prospectus Law of 2005, officers of the Department monitor on a continuous basis the announcements of Issuers regarding the issue/offer of transferable securities or the listing of transferable securities in a regulated market. The purpose of this is to ensure their compliance with the Law as to their obligation to issue a Prospectus or a Supplementary Prospectus or whether they fall within the exemptions provided by the Law.

Moreover, officers of the Department monitor on a continuous basis the notifications of approved Prospectuses by the competent Supervisory Authorities of other EU Member States. These mainly concern Public Offers made in the Republic of Cyprus of transferable securities issued by Issuers whose Home Member State is other than Cyprus. All the above notifications are listed on the website of the CySEC.

In those cases where the examination of applications for approval of Prospectuses or of the relevant announcements, revealed a potential violation of the Stock Exchange and securities market legislation, they were referred to the Department of Market Surveillance and Investigations for further investigation.

In 2009, the CySEC completed the investigation of a case which commenced in 2008 and concerned a potential violation of the Public Offer and Prospectus Law concerning the content of a Prospectus. This case was also investigated pursuant to the Insider Dealing and Market Manipulation (Market Abuse) Law, as non-inclusion of substantial information in a prospectus could potentially constitute a violation of the provisions of this law also. The CySEC decided to impose fines separately on the Issuer, on the members of its Board of Directors and on the underwriter/person in charge of preparing the Prospectus.

1.3 Documents equivalent to a Prospectus

In 2009, in one case (2 in 2008) the CySEC, upon application by the Issuer, examined the information contained in a Public Takeover Bid document regarding the securities offered as compensation, in

order to establish whether the information contained therein could be considered equivalent to the information required to be included in a Prospectus. In this case (2 in 2008) the CySEC considered this information equivalent to a Prospectus and granted the relevant exemption in accordance with the Law.

1.4 Transfer of competence for the approval of a Prospectus

During 2009, the CySEC received applications from two Issuers (5 in 2008) whose home Member State, according to the Law, was the Republic of Cyprus, requesting the transfer of competence for the approval of their Prospectus to the Supervisory Authority of another EU Member State. The CySEC examined the applications and decided in accordance with Article 26(8) of the Law to transfer the competence for the approval of these two (5 in 2008) Prospectuses to the Supervisory Authority of another EU Member State, on the condition that each competent Authority concerned had given its consent to the transfer.

In 2008, the CySEC has also given its consent to the competent Supervisory Authority of another EU Member State for the transfer of the competence of approval of a Prospectus from the said Supervisory Authority to the CySEC. There was no such request in 2009.

2. Public Takeover Bids for the acquisition of companies the securities of which are listed on regulated markets

According to the Law that regulates Public Takeover Bids for the acquisition of securities of companies and related matters (Public Takeover Bids Law of 2007), the CySEC is, as of April 2007, the competent authority for the supervision of Public Takeover Bids, in the cases where the target company's registered office is in the Republic and its securities are traded on a regulated market in the Republic. Moreover, in case the Public Takeover Bid refers to a company the securities of which are not admitted to trading on a regulated market in the EU Member State where the company has its registered office, the CySEC is also the competent authority for the supervision of the Public Takeover Bid, under certain conditions provided for by the Law.

2.1 Public Takeover Bid Documents

The aim of the examination of the Public Takeover Bid Documents is to examine compliance with the general principles governing Public Takeover Bids and the conditions provided for in the Public Takeover Bids Law of 2007, as well as to ensure the completeness of information dissemination under the said Law and the CySEC Directive TB3/2007 regarding the content of the Public Takeover Bid Document.

In 2009, five Public Takeover Bid Documents (10 in the 2008) were submitted to the CySEC following the relevant announcement by the

Offerors, for voluntary or mandatory offers for the acquisition of 100% of the shares of companies listed on the Cyprus Stock Exchange.

The CySEC examined the above documents, as well as one document submitted in 2008 and approved four of them in 2009. The CySEC prohibited the publication of two Public Takeover Bid Documents (one in 2009 and one in January 2010) because the CySEC deemed that they did not meet the requirements of the Public Takeover Bids Law of 2007.

2.2 *Exemptions from the obligation for a Public Takeover Bid*

In 2009, twenty-two (23 in 2008) applications for exemption from the obligation of making a mandatory Public Takeover Bid were submitted to the CySEC. The CySEC examined those applications, as well as four applications submitted in 2008, and issued a decision (rejection or approval) on all of them.

2.3 *Applications to exercise the right of Squeeze-out*

In 2009, the CySEC received six (5 in 2008) applications to exercise, by the Offerors, the right to acquire the remaining shares of the companies under acquisition, which were not acquired in the process of the Public Takeover Bid. The CySEC examined and approved all these applications.

2.4 *Monitoring of the compliance with the Public Takeover Bids Law of 2007*

In 2009, the CySEC examined one case concerning a potential violation of the provisions of articles 32 and 37(2) of the Public Takeover Bids Law, because the Offeror did not exercise the right for Squeeze-out according to article 36 of the Law, despite the reference made to it in the Public Takeover Bid Document. The CySEC decided to impose fines on the members of the Board of Directors of the Offeror as they were the signatories of the Public Takeover Bid Document, and were hence deemed to have published false and misleading information regarding a material item of the Public Takeover Bid Document.

3. Applications for expansion and diversification of activities

According to the procedure provided for by the relevant Regulatory Decisions issued by the CSE Board, in 2009 the CySEC examined and approved the information memoranda of two investment companies (1 investment company in 2008) regarding the expansion of its activities and its exemption from the investment company restrictions, in order for this memorandum to be put to the vote of the shareholders of the Issuer at the Annual General Meeting.

4. Continuous obligations of listed companies

The CySEC is, as of 31st December 2007, the Authority responsible for ensuring compliance with the provisions of the Law on Transparency Requirements, in relation to information about the Issuers whose securities are admitted to trading on a regulated market [the Transparency Requirements (Transferable Securities Trading on a Regulated Market) Law of 2007]. The Law transposed into national legislation Directive 2004/109/EC of the European Parliament and Council regarding the harmonization of the transparency requirements in the European Union. The Law concerns Issuers whose home Member State is the Republic of Cyprus and their securities are traded on a regulated market in Cyprus or in another Member State. The objective of this Law is to establish the requirements in relation to the disclosure of periodic and continuous information about Issuers whose securities are being traded on a regulated market.

4.1 Monitoring compliance with the provisions of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law of 2007

Within the framework of the monitoring of the compliance of Issuers whose securities are traded on a regulated market, with their continuous obligations by virtue of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law, the CySEC examines the following:

- Their compliance with the provisions of the Law as to their obligation to disclose:
 - the Annual Financial Report;
 - the Six-months Financial Report;
 - the Indicative Results; and
 - the Interim Management Statement,
- The content of these reports/ disclosures and, specifically, whether the said financial disclosure was produced according to the provisions of the Law.
- The compliance of Issuers with the obligation of timely and full disclosure of any kind of material information.

In the process of examining the compliance of Issuers with their obligation to disclose their Six-months Financial Reports for the first half of 2008, the CySEC investigated a number of cases concerning potential violations of Article 10 of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law, concerning the publication and content of the Six-months Financial Reports. The investigation of these cases began in 2008 and was completed in 2009. The CySEC decided, based on the severity of each violation, to:

- Impose an administrative fine on two Issuers for violation of article 10(1) of the Law.

- Impose an administrative fine on five Issuers for violation of article 10(3) of the Law.
- Draw the attention of a number of Issuers to the provisions of the Law regarding the Six-month Financial Report and its disclosure.

In the process of the examining of the compliance of Issuers with their obligation to disclosure the Indicative Results for the year 2008, the CySEC investigated 16 cases regarding potential violations of article 13(1) and/or article 13(3) of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law. The investigation of these cases was completed in 2010 and the CySEC decided to impose administrative fines as follows:

- Fines were imposed on two Issuers for violation of article 13(1) of the Law.
- Fines were imposed on four Issuers for violation of article 13(1) and 13(3) of the Law.
- Fines were imposed on four Issuers for violation of article 13(3) of the Law.

In a number of cases where minor omissions were observed in the indicative results, the CySEC sent letters to the Issuers drawing their attention to the provisions of the Law regarding Indicative Results and their disclosure.

In the process of the examination of the compliance of Issuers with their disclosure obligation regarding their Annual Financial Report for the year 2008, the CySEC sent letters to a number of Issuers drawing their attention to the provisions of the Law regarding Annual Financial Reports and their disclosure.

The CySEC also decided to make upon an issuer a call for written representations for a potential violation of article 9(1) and/or article 9(4)(c) of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law, regarding the disclosure and content of the Annual Financial Report for the year 2008. The final decision procedure is to be concluded in 2010.

Moreover, the CySEC decided to impose an administrative fine on one Issuer for violation of Article 9(1) of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law, in view of the fact that the issuer had not disclosed the Annual Financial Report for the year 2008 within the time limit provided for by the Law, and on two Issuers for the same violation regarding the Annual Financial Reports for the year 2007.

The CySEC assessed the Annual Financial Statements for the year 2008 and/or the six months to 30th June 2009 of a number of

companies with securities listed on the Cyprus Stock Exchange as to their compliance with the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law.

The Annual Financial Statements to be assessed were selected on a sample basis and the purpose of this assessment was to establish the extent of the compliance of the Annual Financial Statements with the International Financial Reporting Standards. The results of the assessments were communicated to the companies concerned in order for them to provide explanations and/or to be taken into consideration in the preparation of their next audited financial statements. Based on this assessment procedure, the CySEC has requested an issuer to make a corrective statement / announcement disclosing the corrected financial statements for the said year. The assessment procedure continued in 2010.

In addition, the CySEC continued the examination, on a sample basis, of the Annual Financial Statements of Issuers that submitted their Prospectuses for approval, within the framework of the Prospectus examinations. The object of this examination was to establish the extent to which the Annual Financial Statements complied with the International Financial Reporting Standards. Where considered necessary, the Issuers were asked to make corrections or include supplementary disclosures in the Financial Statements included in the Prospectus.

4.2 Issues arising from the Securities and Cyprus Stock Exchange Laws and Regulations

In 2009, in seven cases (9 in 2008) the CySEC agreed with the decision of the Cyprus Stock Exchange Board for the delisting of the securities of Issuers. One of these cases concerned the issuer's non-compliance with its continuous obligations; another case concerned the liquidation of the company following a merger of its activities with another company; while the rest of the cases concerned the lack of sufficient dispersion of the shares of the Issuers as a result of public takeover bids.

4.3 Corporate Governance Code

As regards the Corporate Governance Code issued by the Cyprus Stock Exchange, the CySEC continued to monitor the procedure manuals adopted by the Issuers that implement some or all of the provisions of the Code.

In addition to the above, the CySEC continued to monitor the announcements of the Issuers. In those cases where reference was made to the application of the Code, the CySEC conducted investigations to establish whether the correct procedures, as

provided for by the Code and the procedure manual of the particular Issuer, were followed.

The CySEC also participates in the Task Force established on the initiative of the Ministry of Finance with the aim to discuss and exchange views regarding the remunerations of the members of the Boards of Directors and high ranking officers of the listed companies and to introduce new provisions in the Corporate Governance Code, pursuant to the Recommendations of the European Union.

5. Participation in CESR committees

5.1 CESR Permanent Committees

The CySEC participates in the CESR-Fin committee. CESR-Fin is a permanent operating committee of CESR and its aim is to coordinate the activities of CESR members on issues of endorsement as well as enforcement of the International Financial Reporting Standards. Also, it monitors the developments in Europe as regards auditing. Representatives of the competent Supervisory Authorities of every EU Member State, EU representatives and representatives of the CESR Secretariat participate in the meetings of this committee.

The CySEC also participates in EECS (European Enforcers Coordination Sessions). This committee was set up pursuant to CESR Standard 2 (Standard no. 2 on financial information – coordination of enforcement activities) and all Supervisory Authorities of EU Member States which are responsible for the supervision of financial information, participate in it, irrespective of whether they are CESR members or not. Significant decisions taken by Supervisory Authorities concerning the enforcement of the International Standards of Financial Reporting are, *inter alia*, discussed during the committee's meetings.

The CySEC is represented in the aforementioned committee by the senior officer and three officers of the Department.

In 2009, officers of the Department participated in four meetings of CESR-Fin (3 in 2008) and seven meetings (5 in 2008) of EECS.

5.2 CESR Expert Groups

An officer of the Department monitors, in cooperation with the Legal Department, the proceedings of the CESR Transparency Expert Group for the preparation of Level 3 recommendations/guidance in relation to the enforcement of the EU Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about Issuers whose securities are admitted to trading on a regulated market.

5.3 CESR Contact Groups

Officers of the Department also participate in the following CESR contact groups:

■ **Prospectus Contact Group.** The mandate of this contact group is to discuss issues arising from the practical application of the Prospectus Directive and its implementing measures and to publish the common positions agreed by the Supervisory Authorities members of CESR.

In 2009, an officer of the Department participated in three meetings (3 meetings in 2008) of the above contact group. In July 2006 the said group issued the first document titled "Frequently asked questions regarding prospectuses: common positions agreed by CESR members", which is since then constantly updated with new common positions. The latest (tenth) update of the document took place in December 2009. The document is available on the CySEC website.

■ **Takeover bids network.** This contact group was established in 2007 with the aim of exchanging information and experiences arising from the practical implementation of the legislation on Public Takeover Bids.

An officer of the Department, in cooperation with the Legal Department, closely follows the proceedings of the said group. In 2009, an officer of the Department participated in two meetings (1 meeting in 2008) of the above contact group.

6. Circulars

During the year a number of announcements and circulars were issued addressed to the companies listed in the Cyprus Stock Exchange, the Issuers of securities, which, *inter alia*, cover the following:

- CESR statement on the reclassification of financial instruments and other related issues;
- Obligation for the disclosure of the Indicative Results;
- Obligation for the disclosure of the Annual Financial Report;
- Obligation requirement for the disclosure of a Six-months Financial Report;
- Publication of a part of the CESR database of decisions on issues concerning the enforcement of the International Financial Reporting Standards.

7. Studies

In 2009, the following issues were reviewed and suggestions/comments were submitted:

- Draft CySEC Directives to be issued pursuant to the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law of 2007.

- Recommendations of the European Commission regarding the remunerations of high ranking officers of listed companies
- Amendments proposed by the European Commission to the European Directive 2003/71/EC (Prospectus Directive). Concerning this matter, officers of the Department participated in two meetings of the European Commission during which the proposed amendments were discussed.

8. Personnel training

In 2009, the officers of the Department attended seminars on the following topics:

- International Financial Reporting Standards (IFRS 1, 36 and 40)
- Advanced International Financial Reporting Standards
- Groups on International Financial Reporting Standards
- CESR Seminar- Enforcement of IFRS: Challenges for Supervisors and exchange of experiences

Department for Granting Operation Licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies

The Department for Granting Operation Licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies, based on the Strategic Plan adopted by the Board of the CySEC in 2007, has set, *inter alia*, the following objectives:

- To ensure convergence in the implementation of European Directives and close cooperation with other EU Supervisory Authorities in relation to matters concerning Investment Firms and Regulated Markets, through the regular participation of officers of the Department in the relevant CESR committees and working groups and contacts with the other Supervisory Authorities of the financial sector of Cyprus.
- To contribute to the sound organisation and operation of dynamic financial institutions that are able to fully meet the obligations emanating from the relevant regulatory framework, through the setting of standards, the training of these institutions and the regular meetings with their associations.

1. Total number of supervised Investment Firms – Regulated Markets – CRAs

At the end of 2009, the CySEC had under its supervision 68 Cyprus Investment Firms (CIFs) (67 in 2008) and one Regulated Market (1 in 2008). There are no licensed Credit Rating Agencies (CRAs) for the time being, in view of the fact that the relevant European Regulation regulating CRAs came into effect as of December 2009.

2. Applications submitted

<i>Applications submitted to the CySEC for:</i>	<i>2009</i>	<i>2008</i>
• granting a CIF operation licence	24	21
• extension of a CIF operation licence	11	19
• free provision of services	15	19
• granting a licence for tied agents	4	4
• termination of a CIF operation licence	8	6

2.1 *Applications for granting a CIF operation licence*

In 2009, the CySEC received twenty-four new applications for granting a CIF operation licence (21 new applications in 2008).

In 2009, twenty-nine applications for granting a CIF operation licence were under examination (19 in 2008). The CySEC granted eleven CIF operation licences (8 in 2008). With regards to the rest of the applications, the examination of which began in 2009, the decision process of whether to grant or not the licence has either been concluded or it will be concluded in 2010.

2.2 Applications for the extension of a CIF operation licence

In 2009, the CySEC examined eleven applications for the extension of a CIF operation licence which concerned the provision of additional investment and/or ancillary services and/or financial instruments (19 in 2008).

2.3 Applications for the free provision of services and for the establishment of a branch in another EU Member State

In 2009, the CySEC examined fifteen applications by CIFs for the free provision of services in another EU Member State and/or a third country (19 applications in 2008) and two applications by CIFs for the establishment of a branch in another EU Member State or third country (2 in 2008).

2.4 Applications by tied agents of CIFs for registration on the public register

In 2009, the CySEC examined four applications by persons wishing to act as tied agents of CIFs (4 in 2008) for registration on the public register.

2.5 Applications for changes in the particulars of CIFs

Throughout the year, the CySEC examined a significant number of applications for approving structural changes mainly concerning the organisation chart, the organisation structure, the internal rules of operation, the activities and the system of operation of CIFs.

In those cases where the CySEC considered that the proposed changes did not conform to the relevant legislation, approval was not granted.

2.6 Applications for granting a regulated market operation licence

In 2009, there was no application for granting a regulated market operation licence; the compliance, however, of the Cyprus Stock Exchange (CSE) with all its legal obligations as a regulated market was examined. In 2007, upon entry into force of the Investment Services and Activities and Regulated Markets Law, the CSE was deemed to hold a regulated market operation licence.

2.7 Applications for the termination of a CIF operation licence

In 2009, eight applications were submitted to the CySEC for the termination of a CIF operation licence (6 in 2008).

3. Monitoring of the compliance of CIFs with their continuous legal obligations

The CySEC monitored the compliance of CIFs with their continuous legal obligations by either performing on-site inspections at the offices of CIFs or by examining the regular reports/documents submitted to the CySEC as provided for by the Law.

3.1 Performance of on-site inspections

In 2009, the CySEC performed a wide ranging on-site inspection/investigation at one CIF in order to establish the CIFs' compliance with its continuous obligations.

3.2 Examination of regular reports/documents submitted to CySEC

In 2009, the CySEC examined, on a sample basis, the monthly and quarterly statements submitted to it concerning the capital adequacy and large exposures of CIFs.

All monthly statements by CIFs regarding significant transactions in cash submitted to the CySEC were also examined.

3.3 Imposition of sanctions

In the cases where the CySEC established non-compliance of CIFs with their continuous obligations as provided for by the Law, depending on the seriousness of the violations, decided:

- to set a deadline for compliance to a number of CIFs;
- to make a reprimand to five CIFs;
- to impose an administrative fine to three CIFs (14 in 2008);
- to suspend the operation licence of one CIF;
- to terminate the operation licence of two CIFs.

4. Legislation

4.1 CySEC Directives

During the year, one CySEC Directive (2 in 2008) was prepared and published in the Official Gazette of the Republic of Cyprus on the prevention of money laundering and terrorist financing.

4.2 Circulars

In 2009, the CySEC prepared and circulated ten circulars to CIFs (18 in 2008), the most significant of which being:

- CESR public statement for the collapse of 'Bernard L. Madoff Investment Securities LLC'
- Investments by CIFs and their clients in Mr Allen Stanfords' products and companies
- The charges and annual fees payable by CIFs and Regulated Markets
- Treatment of interest derived from bank account holding clients' funds
- The execution of orders in relation to financial instruments that are parallel listed on Regulated Markets (arbitrage)
- Compliance with anti-money laundering legislation
- The use of credit ratings

5. Participation in Committees and Groups

4.3 Consultation Papers

In 2009, no consultation paper was prepared or published (1 in 2008).

4.4 Forms

In 2009, two forms were prepared and published (6 in 2008), as follows:

- Form for the monthly prudential statement for the prevention of money laundering and terrorist financing, and
- Form for the calculation of the annual fees payable.

A number of the existing Forms was also updated and amended.

5.1 CESR expert groups and subgroups

The senior officer and three officers of the Department participate in four different CESR expert groups or subgroups responsible for the preparation and issue of guidelines regarding the implementation of European Directives 2004/39/EC (Markets in Financial Instruments Directive), 2006/73/EC (Implementing Directive of Directive 2004/39/EC) and European Regulation 1060/2009 for CRAs.

In 2009, a total of twenty meetings of the above groups were held (12 in 2008).

5.2 Other Committees/Authorities

The senior officer and/or one officer of the Department participate in the following committees/authorities:

- The Examination Committee responsible for granting professional competence certificates to employees and/or executives of Investment Firms;
- The Administrative Committee of the Investors' Compensation Fund, which is responsible for the administration of the Compensation Fund for Customers of CIFs and other Investment Firms.
- The Advisory Authority which examines issues concerning the prevention of money laundering and terrorist financing together with the representatives of the Law Office of the Republic, the Central Bank, the Authority for the Supervision and Development of Cooperative Societies, the Institute of Certified Public Accountants of Cyprus and the Cyprus Bar Association.

6. Training of supervised entities

In 2009, the CySEC organised one seminar (2 in 2008) in cooperation with the CIF Association for the CIFs which covered issues pertaining to the prevention of money laundering and terrorist financing.

7. Participation in training seminars

The officers of the Department attended training seminars on the following:

- Introduction to CCP clearing
- Amendments/improvements to IFRS
- Risk Management
- Money laundering
- Trading book and market infrastructure
- Securitization
- Securitization and credit derivatives

Department for Granting Operation Licences and Supervision of UCITS and UCITS Management Companies

In the context of the Strategic Plan adopted by the Board of the CySEC in 2007, the Department for Granting Operation Licences and Supervision of Open-ended UCITS and UCITS Management Companies has set, inter alia, the following objectives:

- To contribute to the completion of the legislative, regulatory and supervisory framework of Cyprus in relation to UCITS in order to fully comply with the relevant European standards and Directives;
- To ensure convergence in the implementation of European Directives and close cooperation with the other EU Supervisory Authorities through the regular participation in the various CESR committees and working groups;
- To contribute to the introduction of a legislative, regulatory and supervisory framework in relation to the Undertakings for Collective Investments not falling within the provisions of the existing framework for UCITS (e.g. Undertakings for Collective Investments in real estate).

1. Notifications/ Applications to enable the marketing of units of foreign harmonised and non-harmonised UCITS in the Republic

In order for the marketing of units of foreign harmonised UCITS in the Republic to be permitted, the CySEC mainly verifies that a certificate by the competent Supervisory Authorities of the country of origin has been submitted to the CySEC, confirming that the requirements set by the European Directive 85/611/EEC, as amended, are met. Also the CySEC verifies that the documents/forms based on which the UCITS intend to market their units in the Republic (e.g. UCITS Regulation, full and simplified Prospectus, annual and six-months statements) have been produced, as well as whether the expected method of marketing the units in the Republic complies with the UCITS Law and the CySEC Directives issued pursuant to this Law.

The marketing of units of foreign non-harmonised UCITS in the Republic is permitted provided that a prior authorisation by the CySEC is obtained.

More specifically, at the end of 2009, the following UCITS were in operation:

Number of foreign harmonised UCITS	2009	2008
• single schemes	35	34
• umbrella schemes	20	17
Total	55	51

Number of foreign non-harmonised UCITS	2009	2008
• single schemes	1	1
• umbrella schemes	4	3
Total	5	4

Total number of sub-funds under the umbrella schemes	2009	2008
• harmonised UCITS	342	316
• non-harmonised UCITS	26	28
Total	368	344

State of origin of foreign UCITS	2009	2008
• Number of harmonised UCITS		
- Greece	33	32
- Luxemburg	16	13
- Ireland	4	4
- France	2	2
Total	55	51
• Number of non-harmonised UCITS		
- Jersey Island - Channel Islands	5	4
Total	5	4

During 2009:

- Eleven new foreign harmonised UCITS were registered with the CySEC for the marketing of their units in the Republic of Cyprus.
- The marketing in the Republic of units of foreign harmonised UCITS was terminated in five cases, on application by the UCITS.
- The marketing in the Republic of units of foreign harmonised UCITS was terminated in one case as a result of its merger with another UCITS.
- The marketing in the Republic of a foreign harmonised UCITS was terminated due to termination of its operations.
- Permission was granted to one foreign non-harmonised UCITS for marketing its units in the Republic.
- The total number of the distributors of the UCITS approved by the CySEC was thirteen (14 in 2008). In particular, in 2009 one distributor of UCITS was deleted from the UCITS distributors' register due to the termination of the marketing of the said UCITS.

2. Cross-border provision of services in the Republic by Management Companies domiciled in an EU Member State

During 2009 we received two (3 in 2008) new notifications by harmonised Management Companies whose home country is an EU Member State concerning the cross-border provision of services in the Republic, for which they have obtained an operation licence by the competent Supervisory Authority of their home Member State, in accordance with the relevant national legislation, which transposes the European Directive 85/611/EEC.

At the end of 2009, we had a total of eight (6 in 2008) Management Companies whose home country is an EU Member State that registered with the CySEC for the cross-border provision of services in the Republic, from the following Member States:

Member States	2009	2008
• France	3	3
• Luxemburg	3	2
• Austria	1	1
• Norway	1	0
Total	8	6

3. Monitoring of the compliance of foreign UCITS, their Distributors in the Republic and foreign Management Companies for cross-border provision of services, with their continuous obligations

The Department monitors the compliance of foreign UCITS and their Distributors as regards:

- The submission by Distributors to the CySEC of statements concerning the marketing in the Republic of units of foreign harmonised and non-harmonised UCITS as from their registration day/their authorisation by the CySEC;
- The submission by UCITS Distributors to the CySEC on a six-monthly basis of lists of their employees involved in the marketing of units of foreign harmonised and non-harmonised UCITS in the Republic;
- The submission by UCITS of the latest available financial statements and prospectuses and the notification by UCITS to the CySEC of any changes in the forms and information submitted;
- The provision of information to the CySEC and to investors in the Republic of significant facts relating to UCITS (e.g. merger / take-over of UCITS, termination of marketing of UCITS units in the Republic, revocation of issue/redemption of UCITS units, etc.) which may affect the rights of the investors in the Republic;
- The payment by the foreign UCITS and foreign Management Companies of the annual fees, in cooperation with the CySEC Accounting Department.

4. Legislation, CySEC Directives and Circulars

4.1 CySEC Directives

In 2009, the following CySEC Directives were prepared and published in the Official Gazette of the Republic:

- Directive for the publication of unit prices of foreign UCITS
- Directive for the notification to the CySEC of significant events that relate to foreign harmonised UCITS
- Directive for the marketing of foreign harmonised UCITS in the Republic

4.2 Circulars

In 2009, a Circular was prepared and circulated with clarifications regarding the appointment of a new UCITS Distributor.

4.3 Consultation Papers

In 2009, the following three consultation papers were prepared and circulated (4 in 2008):

- Publication of unit prices of foreign UCITS Distributors of UCITS
- Notification to the CySEC of significant events that relate to foreign harmonised UCITS
- Marketing of foreign harmonised UCITS in the Republic

**5. Participation
in the CESR
Investment
Management Expert
Group**

In 2009, an officer of the Department participated in one meeting (1 in 2008) of the CESR Investment Management Expert Group.

**6. Participation
in the Working
Party for the
Proposed Directive
for the Alternative
Investment Fund
Managers**

In 2009, an officer of the Department participated in ten meetings of the Working Party on Financial Services of the Council of the European Union, for the Proposed Directive for the Alternative Investment Fund Managers.

**7. Participation
in other committees**

An officer of the Department participates in the following committees:

- Examination Committee responsible for the granting of professional competence certificates to employees and/or executives of Investment Firms;
- Ad hoc Committee established with the aim of making suggestions for the enactment of a comprehensive legislative framework for Undertakings for Collective Investments in the Republic.

Department of Market Surveillance and Investigations

In the context of the Strategic Plan adopted by the Board of the CySEC in 2007, the Department of Market Surveillance and Investigations has set, *inter alia*, the following objectives:

- The improvement of the Regulatory Framework through the detection and submission of proposals for the elimination of potential weaknesses in the practical implementation of the legislative framework;
- The protection of investors through the faster investigation of cases and the prevention of market abuse practices through educating the CIFs on market abuse issues;
- To contribute to the development of a reliable and efficient market through the prevention and effective suppression of market abuse practices.

1. Potential violations

During the period under review, the Department of Market Surveillance and Investigations investigated cases concerning the following categories of violations:

1.1 *Potential violations concerning The Insider Dealing and Market Manipulation (Market Abuse), Law N.116(I)/2005. ("Market Abuse Law")*

This category comprises cases concerning the possession, use and disclosure of inside information, the market abuse, the announcement of material information by Issuers, the transactions of the directors of Issuers, etc.

The CySEC investigated of a total of forty cases (20 in 2008) as follows:

- Fourteen cases concerned a potential violation of Article 19 of the Market Abuse Law. In thirteen of the cases, public announcements to the CSE by listed Issuers would have been potentially false or misleading, and in another case, a press announcement would have been potentially false or misleading (Article 20(1)(c) of the Market Abuse Law). In three of cases the investigation continues, in two cases the CySEC has decided to impose administrative sanctions, in another three of the cases the CySEC has decided that evidence was inconclusive, while in four of the cases the CySEC has decided that no further action was required and for one other the investigation has been completed and the decision of the Board of the CySEC is pending. In another of the cases in which an individual had manipulated the price of a share (Article 20(1)

(a) of the Market Abuse Law), the CySEC had decided to impose administrative sanctions.

- Two cases concerned a potential violation of Article 9 of the Market Abuse Law by insiders who used this information for the acquisition of financial instruments to which this information related. The CySEC on the first case decided not to take any further action due to lack of sufficient evidence, while in the second case the CySEC sent a letter of reprimand.
- Four cases concerned a potential violation of Article 18 of the Market Abuse Law, regarding individuals exercising managerial duties in a listed company proceeded with trading in the company's shares, in one case on account of another person closely related to them and in the other two cases on their own account, without announcing the trades. In the fourth case, a shareholder who possessed an indirect or direct holding in excess of 5% of the issuer's share capital or voting rights, conducted transactions on the said shares without announcing them. The CySEC for the first two cases decided to impose administrative sanctions, while the investigation for the third case still continues. Regarding the fourth case, no violation could be proven.
- Two cases concerned a potential violation of Article 11 of the Market Abuse Law. The first case was regarding a potential violation of the clause (1)(a) and of paragraph 4 of the CySEC Directive 1/2005 concerning the delay in the publication of inside information re an Issuer. The second case concerned a potential violation of the clause (2)(a), since according to the article 5(k) of the above Directive, an issuer may potentially have provided false or misleading information or concealed important information. The CySEC decided to impose administrative sanctions for the first case and that no violation can be proven in the second case.
- Two cases concerned a potential violation of clause (3) of Article 5 of the CySEC Directive 5/2005 regarding the Code of Conduct of Directors and Related Persons, R.A.A. 447/2005, published pursuant to article 13 of the Market Abuse Law, concerning the necessary measures to be taken by a director or a related person not to engage in transactions during a close period. In both cases, the investigation is completed and pending decision by the CySEC.
- Nine cases concerned a potential violation of clause (1) of Article 5 of the CySEC Directive 5/2005 regarding a listed company director or related person or a person with close links to a director or a related person, to trade on the company's shares during a closed period which constitutes a forbidden period. In three cases the CySEC decided to impose administrative sanctions, in five cases

the investigation continues and in the last case the investigation is completed and pending decision by the CySEC.

- Three cases concerned a potential violation of Article 6 the CySEC Directive 5/2005 regarding a listed company director or related person or a person with close links to a director or a related person, to trade on the company's shares without the necessary permission. The CySEC decided to impose administrative sanctions in two cases and sent a letter of reprimand in the third case.
- Four cases concerned a potential violation of the clause (1) of Article 8 of the CySEC Directive 5/2005 on the granting of permission to Director or related person or a person with close links to a director or a related person, to trade in securities of the issuer during a forbidden period. The CySEC decided to impose a fine in one case, the investigation of the second case continues, while in the other two cases the investigations are completed and pending decision by the CySEC.
- One case concerned a potential violation of the clause (3) of Article 8 of the CySEC Directive 5/2005 concerning the necessary measures to be taken by a director or a related person to avoid transactions in a forbidden period. The CySEC sent a letter of reprimand.

1.2 *Potential violations in terms of the power of the CySEC to Collect Information, Enter, Investigate and Impose Administrative Fines*

This category includes cases of potential violations of the obligations of every natural or legal person as regards the timely, full and precise provision of information required by the CySEC. These violations are covered by Part VI (Articles 33–41) and Part VII (Article 42) of the Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Laws (N.64(I)/2007 as amended) until 10th July 2009 and by Part VI (Articles 32-40) and Part VII (Article 41) of the Cyprus Securities and Exchange Commission Law of 2009 (N. 73(I)/2009).

In 2009, the CySEC investigated three cases in total (5 in 2008) as follows:

- Two cases concerned a potential violation of Article 33(3) regarding the obligation of a person to give information necessary or helpful for the exercise of the responsibilities of the CySEC. In the first case, the CySEC sent a letter of reprimand, while in the other case the investigation continues.
- One case concerned a potential violation of Article 42 concerning false information being submitted to the CySEC by a company listed on the CSE. The case is still under investigation.

1.3.1 Potential violations concerning the provision of investment services by firms who did not have a CIF operating licence

This category includes cases of potential violations by companies which provide or appear to provide investment services, without being duly authorised by the CySEC. These violations are pursuant to Articles 4 and 5 of the Investment Services and Activities and Regulated Markets Law (N.144(I)/2007).

In 2009, the CySEC investigated seven cases (1 in 2008) which concerned a potential violation of Article 4 of the Investment Services and Activities and Regulated Markets Law by a company which provided or appeared to provide professional investment services in or outside the Republic. In four cases the CySEC decided that there wasn't enough evidence to substantiate a violation, while in the other three cases the investigation continues.

1.3.2 Potential violations concerning the Conditions for Granting a CIF licence, Termination, Revocation and Suspension of a CIF licence and the Conditions for CIF operation

This category includes cases of violations concerning the operation of CIFs. These violations are pursuant to Part III, Part IV and Part V of the Investment Services and Activities and Regulated Markets Law (N.144(I)/2007).

In 2009, the CySEC investigated one case for potential violations of Articles 18, 28, 29, 36, 43 and 44 of the CIFs Laws by a CIF, which potentially failed to comply with the correct operating procedures. The investigation of this case continues.

1.4 Monitoring and investigation of investors complaints

In 2009, the CySEC received complaints by investors against CIFs and listed companies as well as complaints of other nature. The investigation of nine cases continues, while in another ten cases which were investigated no violation was found.

1.5 Potential violations concerning the obligation to submit a Public Takeover Bid to the holders of a company's securities for the acquisition of all or proportion of its securities

This category includes cases of potential violations whereby a person, as a result of the acquisition by him/her or by persons acting in concert, possesses securities of a company, which, added to any securities already held, gives him/her directly or indirectly the right to control thirty per cent (30%) or more of the voting rights in the said company. This person is obliged to submit a Public Takeover Bid to all the holders of these

securities, for all the securities they hold. These violations are pursuant to Articles 5, 6, 13 and 17 of the Public Takeover Bids Law (N.41(I) 2007).

In 2009, the CySEC investigated a total of six cases (3 in 2008) as follows:

- Five cases which concerned a potential violation of Article 13 for non-compliance with the obligation for making a mandatory Public Takeover Bid to the company's shareholders for the acquisition of 100% of its share capital. In two of these cases, the CySEC imposed an administrative fine. In another case, the CySEC decided, to grant an exception from the obligation to make a Public Takeover Bid, in another case, the CySEC decided that there was no violation, while the investigation of the last case continues.
- One case which concerned a potential violation of Articles 5, 6 and 17 by a company which did not back its public takeover bid with the necessary certification. The CySEC imposed an administrative fine.

1.6 Potential violations concerning the requirements for the periodic and continuous disclosure of information by Issuers whose transferable securities are traded on the Cyprus Stock Exchange

This category includes cases of potential violations whereby Issuers provided and/or confirmed false or misleading information or evidence and/or concealed information or evidence, as well as of potential violations concerning the annual financial reports. These violations are pursuant to Articles 9 and 40 of the Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law (N.72(I)/2007).

In 2009, the CySEC investigated one case which concerned a potential violation of Articles 9 and 40. The CySEC referred the case to the Attorney General of the Republic.

1.7 Potential violations concerning the obligations of the Issuers of shares trading on the Cyprus Stock Exchange

This category includes cases of potential violations concerning the obligations of Issuers for compliance to the Companies' Law, investor protection, publication/announcement of information regarding related party transactions and other violations. These violations are pursuant to Chapter B of the Securities and Cyprus Stock Exchange Law (N.115(I)2005) as amended.

In 2009, the CySEC investigated a case concerning a potential violation of Articles 130 and 137 by a listed company which appeared to favour an investor and omitted to announce transactions with one of its directors. The CySEC referred the case to the Attorney General of the Republic.

1.8 *Potential violations concerning the requirements for the listing of additional securities on the Cyprus Stock Exchange*

This category includes cases of potential violations concerning the right to amend the terms of issue of additional or new shares to be listed on the Cyprus Stock Exchange. These violations are pursuant to Regulation 4.3 of the Cyprus Stock Exchange Regulations of 2005 as amended.

During the course of the year, the CySEC investigated a case concerning a potential violation of Regulation 4.3.1.4. by an issuer which issued securities with different terms to those of the previous issue. The CySEC decided to accept the decision of the Board of the CSE, in that there was no difference in the terms of the issue.

1.9 *Potential violations concerning the requirements for the conduct of a public offer in the Republic for investment in transferable securities and the terms for their preparation, approval and publication, as well as for the content of the prospectus.*

This category includes cases of potential violations concerning the contact of a public offer of transferable securities in the Republic before the publication of the prospectus. These violations are pursuant to Part II of the Public Offer and Prospectus Law of 2005.

In 2009, the CySEC investigated one case concerning a potential violation of Article 4 by a company which made a public offer before the publication of the prospectus. The CySEC sent a letter of reprimand.

1.10 *Potential violations of the Companies Law*

This category includes cases of potential violations concerning the formation of a company and other related issues. These violations are pursuant to Section I of the Companies Law (Chapter 113).

In 2009 the CySEC investigated a case concerning a potential violation of Article 28 in relation to the status of a member of a holding company. The CySEC referred the case to the Department of the Registrar of Companies and Official Receiver for further action.

1.11 *Lifting of Bank Confidentiality*

In 2009 the CySEC lifted bank confidentiality in nine cases as regards legal and physical persons, as it is provided for by Article 32(4) of the CySEC Law of 2009 (N.73(I)/2009), to facilitate the investigation of potential violations.

2. Announcements and Circulars

2.1 Announcements

During the year eight announcements were published (7 in 2008) regarding the administrative fines imposed on natural and legal persons.

2.2 Circulars

Two circulars were issued during the year (none in 2008). Both circulars concern issues of compliance with the Market Abuse Law.

3. Personnel Training

In 2009, a number of officers and one assistant secretarial officer of the Department attended seminars on the following:

- Enforcement and Market Oversight Conference
- Core IFRS
- Examination, Investigation and Litigation of Insider Trading and Market Manipulation Cases in Securities Regulation

4. Participation in CESR committees and Groups

One officer and one assistant secretarial officer of the Department participated in the meetings of CESR-Pol and the Surveillance & Intelligence sub-group of CESR-Pol on issues concerning the Department's responsibilities.

Legal Department

1. Preparation of Regulations, CySEC Directives and Amending Laws

In the context of the Strategic Plan adopted by the Board of the CySEC in 2007, the Legal Department has set its objectives to be, *inter alia*, the completion of the legislative and regulatory framework in order to fully comply with the European Directives and Standards as well as to meet the needs of the Cyprus market.

The Legal Department proceeded, in cooperation with the competent departments of the CySEC, with the legal processing and final issue of the following Laws/CySEC Directives:

- The Cyprus Securities and Exchange Commission Law of 2009 (N.73(I)/2009)
- The Investment Services and Activities and Regulated Markets (Amending) Law of 2009 (N.106(I)/2009)
- The Public Takeover Bids (Amending) Law of 2009 (N.47(I)/2009)
- The Transparency Requirements (Securities Admitted to Trading on a Regulated Market) (Amending) Law of 2009 (N.72(I)/2009)
- Directive DI144-2007-04(B) Regarding Charges and Annual Fees Payable (No. 4350 16.04.2009, R.A.A. 168/2009)
- Directive DI144-2007-04(C) Regarding Charges and Annual Fees Payable (No. 4393, 30.10.2009, R.A.A. 361/2009)
- Directive on the Obligations of Issuers of Financial Instruments DI116-2005-05 (No. 4350 16.04.2009, R.A.A. 167/2009)
- Directive for the content of the Annual Financial Report DI190-2007-04 (No.4351, 24.04.2009, R.A.A. 181/2009)

The Legal Department has conducted a legal vetting of the following CySEC Directives:

- Directive DI200-2004-05 for the marketing of Units in the Republic by UCITS domiciled in a Member State and complying with the European Directive 85/611/EEC as amended (No. 4334 13.2.2009, R.A.A. 76/2009)
- Directive DI200-2004-06 for the notification to the CySEC regarding significant events that relate to UCITS domiciled in a Member State and complying with the European Directive 85/611/EEC (No. 4348 3.4.2009, R.A.A. 153/2009)
- Directive DI200-2004-07 on the publication of UCITS unit prices (No. 4359, 22.05.2009, R.A.A. 216/2009)

2. Participation in CESR committees

In 2009, officers of the Legal Department participated in the following CESR meetings:

- In three meetings of the Expert Group concerning the Transparency Directive
- In one meeting of the Expert Group on UCITS
- In two meetings of the Expert Group concerning Credit Rating Agencies

In the meetings of the said expert groups the supervisory authorities of all Member States are represented, as well as the European Union and the CESR secretariat. The CySEC was represented by one officer of the Legal Department for each expert group.

3. Training seminars

In 2009, officers of the Legal Department attended the following training seminars:

- FSA Investigations and Enforcement conference in London;
- Seminar on the Competition Law organized by a legal firm in Nicosia
- Financial Services Regulation Seminar in London
- CESR L3 training Seminar on "Listing in Europe: Issues arising for third country Issuers" in Frankfurt
- 3L3 Cross-Sector Seminar on Securitisation in Frankfurt

4. International Relations

In 2009, the application of the CySEC to sign the multilateral memorandum of understanding and cooperation of the International Organization of Securities Commissions (IOSCO) was approved.

Administration and Personnel Department

The implementation of the plan which aims, in the medium term, at the CySEC's financial/budgetary independence, continued in 2009. The fees structure has already been revised based on a cost recovery system.

Furthermore, the Department has undertaken a study for the development of a policy for human resources training and development.

1. Training and Seminars

Officers of the Department participated in seminars on Public Procurements and in seminars on corporate organisation and communication in the workplace.

2. Participation in CESR committees and groups

An officer of the Department participates in the CESR group which is responsible for the development of a common culture and cooperation amongst the European Securities Commissions of the EU. This CESR group has already delivered on its mandate regarding the creation of a common policy for the exchange of personnel of CESR members as well as the promotion of a common training in cooperation with the other two Committees which form the third level of commitology for the financial sector - CEBS (credit institutions) and CEIOPS (insurance and pension funds).

IT and Operations Department

In the context of the Strategic Plan adopted by the Board of the CySEC in 2007, the IT and Operations Department has, inter alia, the following objectives:

- To ensure high standards of information and protection of investors through the regular upgrading of the official website of the CySEC;
- To ensure high standards of operation of the electronic systems of the CySEC through the implementation of the Document Management System and the creation of a Database Management System;
- The continuous training of the CySEC personnel in order to ensure high efficiency through the use of information technology and technology in general.

1. Website

The aim of the CySEC website is the easy provision of useful information on Cyprus securities market both to investors and to other interested parties such as Investment Firms and Issuers. The CySEC offers the "Email Alerts" service free of charge to the public which automatically notifies subscribers as soon as any significant change/addition is made in the CySEC website.

2. Internal Network

The Department places great importance on the appropriate and safe keeping of information given its confidential nature. In addition, a CySEC personnel training programme was developed on the various IT systems aiming at better familiarisation.

3. IT Projects

3.1 Document Management System

The Document Management System (DMS) will form the central core for the management of the CySEC documents and operations. This system will be used as an electronic archive for the CySEC documents. Further to providing document storage and safe-keeping, this system will enhance automation of the workflow by automatically forwarding documents to another department/ officer for further processing. Therefore, the CySEC has set up an archive team which operationally comes under the IT and Operations Department.

3.2 Notification of Transactions

During the year, the Transaction Reporting Exchange Mechanism (TREM), was further developed in accordance with Article 25 of Directive 2004/39/EC, MiFID. Article 25 provides that EU Member States should take the appropriate measures so that the competent authority can oversee the activities of investment firms in order to ensure that they act in an honourable, fair and professional manner thus promoting market integrity.

4. European Issues

The officer of the Department participates in the CESR sub-group, CESR-Tech, and also in meetings of representatives of all EU Member States during which new IT projects of the Supervisory Authorities and improvements of the current projects are discussed, as well as issues on the upgrading of the quality of the information exchanged through the IT systems. These contacts facilitate the enrichment of knowledge and the better utilisation of information in exercising the responsibilities of the CySEC.

Investor Education and Training Programme

The CySEC continued the work of the previous years for the design and development of an investor education and training programme on financial matters with emphasis placed on those topics relating to the securities market.

The Advisory Committee for Public Financial Education (hereafter called "Advisory Committee") which was established in 2007 and comprises representatives from the CySEC, the Central Bank of Cyprus, the Insurance Companies Control Service, the Authority for the Supervision and Development of Cooperative Societies, the Ministry of Finance, the Ministry of Commerce, Industry and Tourism, the University of Cyprus, the Cyprus Consumers Association and the Cyprus Investors Association, held its second meeting in which proposals and ideas for achieving the objectives of the programme were discussed. During the meeting it was decided to conduct market surveys in order to collect information on the level of financial literacy of the public separately for each financial sector. Furthermore during this meeting, ideas were discussed of how best to approach financial education in schools, as well as a proposal for organizing a series of financial seminars which will provide members of higher age groups with the opportunity for financial education and ideas for approaching the public and promoting the need for financial education and the Investor Education and Training Programme itself.

The CySEC continued the regular publication of informative and educational articles in daily newspapers, financial magazines and financial websites. The articles are divided into thematic sections and include financial information relating to securities markets. By the end of 2009, a number of articles were published covering:

- How the securities markets work,
- The Single European Market in Financial Services,
- The CySEC and its role as a competent supervisory authority,
- How the stock exchanges work,
- Contemporary financial instruments,
- Why and how stock market bubbles are created and
- What are the UCITS and the mutual funds.

Also, published articles explained the weaknesses of the global financial system which were brought to light by the current international financial crisis and the regulatory measures being proposed. The regular publication of educational articles by the CySEC will continue with articles explaining the obligations of the listed companies and their Board of Directors, information on Corporate Governance, the investment firms as well as general financial information every investor should know. The regular educational articles by the CySEC continue to receive positive comments by the public.

In 2009, the CySEC proceeded with the undertaking of a nationwide survey in order to measure the public knowledge/understanding on issues relating to the securities market and to investments in transferable securities. The parameters leading to specific trends, decisions, actions as well as growing beliefs of the public as regards investments in transferable securities are also to be investigated through this survey. The conduct of this survey, which will be concluded in 2010, will help the CySEC to determine the appropriate directions and priorities of the Investor Education and Training Programme and to save resources, time and energy in its implementation.



Section C

Annexes

Annex 1

Legislation

The legislations on the responsibilities and powers of the CySEC are as follows:

- The Cyprus Securities and Exchange Commission Law of 2009 (entered into force on 10.7.2009);
- The Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Laws of 2001 – 2007 (abolished on 10.7.2009);
- The Securities and Cyprus Stock Exchange Laws of 1993 – 2009 and the Regulations issued pursuant to these laws;
- The Public Takeover Bids Law of 2007 and 2009;
- The Securities and Cyprus Stock Exchange (Central Securities Depository and Central Securities Registry) Laws of 1996 -2009;
- The Possession, Use and Announcement of Privileged Information, the Supervisory Competence of the Cyprus Securities and Exchange Commission and other Related Issues Laws of 1999 – 2001 and the Regulations of 2000-2002 issued pursuant to these laws (abolished on 9.9.2005);
- The Insider Dealing and Market Manipulation (Market Abuse) Laws of 2005 – 2007;
- The Undertakings for Collective Investment in Transferable Securities (UCITS) and Related Issues Laws of 2004 and 2008;
- The Investment Firms (IF) Laws of 2002 and 2005 (abolished on 1.11.2007)
- The Investment Services and Activities and Regulated Markets Law of 2007 and 2009
- The Public Offer and Prospectus Law of 2005;
- The Transparency Requirements (Transferable Securities Admitted to Trading on a Regulated Market) Law of 2007 and 2009;
- The CySEC was appointed as one of the competent Supervisory Authorities regarding the implementation of The Concealment, Investigation and Confiscation of Proceeds from Certain Criminal Acts Law of 1996 to 2004 and The Prevention and Suppression of Money Laundering Activities Law of 2007

Annex 2

Duties of the individual Departments

A. Department for Granting Licences, Listing and Continuous Obligations of Issuers

The duties of the Department for Granting Licences, Listing and Continuous Obligations of Issuers mainly include the following:

- The examination of applications for the approval of prospectuses for the public offer of transferable securities or their admission to trading on a regulated market pursuant to the Public Offer and Prospectus Law of 2005;
- The monitoring of the compliance with the Public Offer and Prospectus Law of 2005;
- The examination of Public Takeover Bid documents for the public takeover of companies whose securities are listed on a regulated market;
- The monitoring of the compliance with the Public Takeover Bids Law of 2007;
- The examination of applications of Issuers for the expansion/diversification of their activities;
- The monitoring of the compliance of companies whose transferable securities are listed on a regulated market with their continuous obligations under the Transparency Requirements (Transferable Securities Admitted to trading on a Regulated Market) Law and, more specifically, as regards their obligations for providing regular information;
- The monitoring of the application and compliance by companies of the Corporate Governance Code;
- The participation in Standing Committees, Expert Groups as well as Contact Groups of CESR for issues relating to the Department's responsibilities;
- The review of proposed legislative measures relating to the Department's responsibilities and the submission of relevant proposals.

B. Department for Granting Operation Licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies

The duties of the Department for Granting Operation Licences and Supervision of Investment Firms, Regulated Markets and Credit Rating Agencies mainly include the following:

- The examination of applications for granting CIF²² operation licences as well as any applications for amendments thereof;
- The examination of applications by CIFs for granting licence for the provision of services outside Cyprus either through a branch or cross-border;
- The examination of applications for the approval of changes in particulars included in the applications for granting a CIF operation licence;
- The examination of applications for approval of tied agents of CIFs;
- The contacts and meetings with companies, which are at the stage of preparing their application for granting of a CIF operation licence for discussing issues relating to their application;
- The contacts and meetings with CIF representatives for discussing issues relating to the business activities of CIFs;
- The monitoring of the compliance of CIFs with their continuous obligations pursuant to the Law;
- The monitoring of the compliance of CIFs with the Prevention and Suppression of Money Laundering Activities Law of 2007;

²² Where there is reference in the text to CIFs, it also includes third country IFs (except credit institutions).

- The examination of applications for granting a regulated market operation licence as well as any applications for any amendment thereof;
- The examination of applications for the approval of changes in particulars concerning a regulated market – market operator;
- The monitoring of the compliance of regulated markets – market operators with their continuous obligations under the Law;
- The participation in the supervisors colleges (comprising experts from Member States) for the examination of applications for granting a CRA operation licence;
- The participation in the supervisors colleges (comprising experts from Member States) for the monitoring of the compliance by CRAs with their continuous obligations pursuant to the EU Regulation;
- The study, preparation and issue of CySEC Directives, Circulars and Forms pursuant to the Investment Services and Activities and Regulated Markets Laws of 2007 and 2009;
- The study of legal framework for Credit Rating Agencies;
- The training of the entities involved;
- The participation in experts groups of CESR on issues relating to the Department's responsibilities;
- The participation in meetings of the European Securities Committee as experts – advisors of the Ministry of Finance;
- The participation in the Examination Committee responsible for granting professional competence certificates to employees/executives of Investment Firms;
- The participation in the Administrative Committee of the Compensation Fund for Investors Customers of CIFs and other Investment Firms;
- The participation in the Advisory Authority which examines issues concerning the prevention of money laundering and terrorist financing.

C. Department for Granting Operation Licences and Supervision of UCITS and UCITS Management Companies

The duties of the Department for Granting Operation Licences and Supervision of UCITS and UCITS Management Companies mainly include the following:

- The examination of applications for granting a licence to operate a local UCITS Management Company;
- The examination of applications for granting a licence for establishment and operation of a local UCITS;
- The examination of notifications for the marketing in the Republic of foreign units of UCITS domiciled in an EU Member State and which are subject to the European Directive 85/611/EEC (harmonized UCITS);
- The examination of applications for granting a licence to market in the Republic of foreign units of UCITS which are either domiciled in an EU Member State or in a State other than an EU Member State (third country) and which are not subject to the European Directive 85/611/EEC (non-harmonized UCITS);
- The examination of notifications for the establishment and cross-border provision of services in the Republic by foreign UCITS Management Companies domiciled in an EU Member State (harmonized Management Companies);
- The examination of applications for granting a licence for establishment and cross-border provision of services in the Republic by foreign Management Companies domiciled in a third country (non-harmonized Management Companies);
- The monitoring of the compliance of local UCITS Management Companies and local UCITS with their continuous obligations;
- The monitoring of the compliance of foreign harmonized and non-harmonized UCITS which market their

units in the Republic and of foreign harmonized and non-harmonized Management Companies with their continuous obligations;

- The submission of suggestions for amendments to the legislation aiming at the improvement of the existing legislative framework;
- The study, preparation and issue of CySEC Directives, Circulars and Forms pursuant to the Undertaking of Collective Investment in Transferable Securities (UCITS) and Related Issues Laws of 2004 -2008;
- The examination of proposed legislations concerning UCITS and their Management Companies and the submission of relevant suggestions;
- The participation in the CESR's Investment Management Expert Group;
- The participation in the Examination Committee responsible for granting professional competence certificates to employees/executives of Investment Firms;
- The participation in the ad hoc Committee established for making suggestions for the enactment of a legislative framework for Collective Investment Undertakings not falling within the scope of the European Directives

D. Department for Market Surveillance and Investigations

The duties of the Department for Market Surveillance and Investigations mainly include the following:

- The investigation of potential violations of the Law on Insider Dealing and Market Manipulation (Market Abuse) of 2005 (N.116(I)/2005);
- The investigation of potential violations of the Securities and Cyprus Stock Exchange Laws and Regulations;
- The conduct of investigations on Issuers whose securities are listed on the Cyprus Stock Exchange;
- The conduct of investigations on Investment Firms;
- The investigation of investors' complaints;
- The daily monitoring of Stock Exchange meetings through modern electronic real-time monitoring systems;
- The issue of circulars or announcements to Issuers, Investment Firms and the public;
- The monitoring of the application of the provisions of the Corporate Governance Code;
- The participation in CESR's operational groups on issues relating to the Department's responsibilities.

E. Legal Department

The duties of the Legal Department mainly include the following:

- The monitoring of the legislation on securities market;
- The preparation and submission of suggestions for the amendment of the relevant legislation;
- The preparation and submission of suggestions for the issue of secondary legislation (Directives of the CySEC);
- The maintenance of a register for cases pending before the Court, the monitoring, coordination and cooperation with external legal consultants of the CySEC;
- The keeping of minutes of the meetings of the Board of the CySEC – filing of decisions – board composition register - decision announcements;
- The legal support of the CySEC (correspondence – internal legal opinions - investigations);
- The transposition of the relevant European Union legislation into national law;
- The communication with Supervisory Authorities abroad – exchange of information and protocols of cooperation;
- The legal support – provision of guidelines to market participants, lawyers, auditors, investors, etc regarding the interpretation and application of the legislation on securities market.

F. Administration and Personnel Department

The duties of the Administration and Personnel Department mainly include the following:

- Personnel Issues
 - Monitoring the observance of Personnel Regulations;
 - Monitoring of personnel training issues;
 - Study of the needs in personnel as well as the announcement of new vacancies;
 - Keeping of the records of the Provident Fund of the CySEC employees.
- Financial Issues
 - Preparation of the CySEC budget and the monitoring of its accurate execution;
 - Undertaking and monitoring the collection of fees/fines and the payment of expenses;
 - Preparation of Financial Statements;
 - Conduct of bids for the supply of consumables and equipment to cover the needs of the CySEC;
 - Coordination of the Medical Care scheme.
- Other
 - Provision of secretarial support to the other Departments;
 - Management of correspondence and telephone centre;
 - Care for the correct management and maintenance of the equipment;
 - Provision of secretarial support to the Compensation Fund for Customers of Cyprus Investment Firms and other Investment Firms;
 - Participation in the CESR committee for the Development of a Common Culture amongst the European Supervisory Authorities on securities market issues;
 - CySEC safety issues.

G. IT and Operations Department

The duties of the IT and Operations Department mainly include the following:

- The regular update of the CySEC's website;
- The improvement of the way of presentation of the information as derived from electronic or non electronic forms of the CySEC;
- The management and monitoring, especially as regards safety issues, of the internal network and the various systems of the CySEC;
- The monitoring and coordination of the implementation of the Document Management System as well as the required personnel training;
- The monitoring and coordination of the implementation and continuous development of CESR's IT projects in relation to the CySEC, such as Transaction Reporting (TREM), Regulated Information Central Storage Mechanism (OAM-Officially Appointed Mechanisms);
- The participation in CESR-TECH group which deals with IT issues;
- The creation of the new CySEC Main Archive which will include all the incoming and outgoing documents, their categorization and classification according to the level of confidentiality and the access rights.

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