
TO : i. **Cyprus Investment Firms**
ii. **Management Companies**

FROM : **Cyprus Securities and Exchange Commission**

DATE : **30 July 2013**

CIRCULAR No. : **CI144-2013-23**

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SUBJECT : **Compliance with the obligations under the legislation for the compliance function**

The Cyprus Securities and Exchange Commission ('the Commission') wishes, with this circular, to inform the Cyprus Investment Firms and Management Companies¹ ('the Regulated Entities') about the following:

1. The compliance functions is one of the most important functions within a Regulated Entity as it ensures compliance with its obligations under the legislation governing its operation.
2. The Regulated Entities are requested to pay particular attention to the effective performance of the compliance function. In particular, the Regulated Entities, must ensure, at least, the following:
 - i. The compliance function applies a risk-based approach in order to allocate the function's resources efficiently.
 - ii. The compliance function establishes a monitoring program, which takes into consideration all areas of services, activities and other business provided/ performed by the Regulated Entity.
 - iii. The compliance reports prepared by the compliance function are forwarded to the persons who effectively direct the Regulated Entity, who evaluate them and take appropriate measures to correct any deficiencies.
 - iv. The compliance function provides support and assistance to all departments/ units/functions of the Regulated Entity.

¹ This Circular refers to Management Companies when providing the investment services of portfolio management to retail investors or investment advice.

- v. The compliance function has the necessary authority, resources and expertise required, as well as access to all relevant information.
 - vi. The compliance function performs its duties and responsibilities on a permanent and continuous basis.
 - vii. The compliance function acts independently when performing its tasks.
 - viii. Any combination of the compliance function with other control functions does not compromise the effectiveness and independence of the compliance function.
 - ix. In case of outsourcing of all or part of the compliance function, all applicable requirements for the compliance function are satisfied.
3. The relevant provisions of the legislation for the compliance function are:
- i. Article 18(2)(a) and (d) of the Investment Services and Activities and Regulated Markets Law of 2007, as amended (*in case of CIFs*).
 - ii. Article 109(6) of the Open-Ended Undertakings for Collective Investment in Transferable Securities (UCITS) and Related Issues Law (*in case of Management Companies*).
 - iii. Paragraphs 4, 5, 9 and 16 of Directive DI144-2007-01 of 2012 for the authorization and operating conditions of CIFs.
 - iv. The guidelines GD-IF-06 on certain aspects of the compliance function.
4. The Commission conducts on-site inspections to the Regulated Entities, examining their compliance with the above provisions.

In case of non-compliance with the provisions of the legislation, the Commission will impose strict sanctions as these are provided in the Law (withdrawal or suspension of the authorization and/or imposition of an administrative fine).

Yours sincerely

Demetra Kalogerou
Chairwoman of the Cyprus and Exchange Commission