



ANNOUNCEMENT

The Cyprus Securities and Exchange Commission (the 'Commission') would like to thank the Cyprus Fiduciary Association (CFA) for their kind invitation to their first annual general meeting. The Minister of Finance honored the meeting with his presence and welcomed the activities of the Association and its Members.

Attached as Appendix 1 you will find the speech of the CFA's Chairman. The CFA is a non profitable organisation and its objective is to promote the interests of its Members. More information you can find on their website at <http://www.cfa.org.cy/>

Equally successful was the meeting held by STEP Cyprus on May 29 in Limassol, on the topic of the recently enacted Law Regulating Companies Providing Administrative Services and other Related Matters of 2012. A constructive discussion ensued with the panel, the attendees and the Commission's internal lawyer, on the supervisory role of the Commission, the practical implementation of the Law and the recommendations of STEP for the most effective attainment of the objectives of the legislation. More information you can find on STEP's website at <http://www.stepcyprus.com/>

The Commission maintains excellent cooperation and communication with the above Bodies and encourages ASPs to register with the corresponding Body of their choice so as to enhance and achieve coordinated communication channels for the exchange of information and problem solving. The Commission welcomes the cooperation with organized bodies for the purpose of promoting the collective interests of the market and the more effective supervision by the Commission.

Nicosia, June 11, 2013

CYPRUS FIDUCIARY ASSOCIATION

Annual General Meeting

Mediterranean Beach Hotel

17 May 2013

Speech by George Savvides, President

Honourable Minister of Finance, Mr Harris Georgiades

Dear representatives of the Cyprus Securities & Exchange Commission

Dear colleagues,

Introduction

It is with great pleasure that I am welcoming you to the first Annual General Meeting of the Cyprus Fiduciary Association!

We definitely expected to hold this first AGM under totally different circumstances, those of prosperity and optimism about the prospects of the international business services sector and the Cyprus economy in general. The latest developments gave rise to an unexpected turmoil that traumatized the most valuable element of our economy's success: TRUST.

Mission

The Cyprus Fiduciary Association was the outcome of an initiative of a number of fiduciary service providers that identified the need to organise and represent the sector. Founded in November 2011, shortly before the final deliberations, which led to the voting of the Law that regulates the activities of administrative service providers (L.196(I)/2012), the Association undertook to promote the interests of fiduciaries, to collectively represent matters of their concern before authorities, such as the House of Representatives, the Cyprus Securities & Exchange Commission, the Registrar of Companies, etc., as well as to educate and keep well-informed and up to date its member firms and their staff. Over and above these targets, the Cyprus Fiduciary Association aims to raise the standards of the fiduciary sector and the services provided by it. Furthermore, we aim to promote our country as an international business centre.

Even though such an initiative should have taken place a long time ago, the Association was definitely founded at a time that is mostly needed.

The Fiduciary sector

The professional services sector constitutes the major contributor to the Gross Domestic Product (GDP) of Cyprus, with its share summing up to approximately 45% whereas at the same time more than 80% of the country's taxation income comes from companies of international interests. Additionally, the sector employs thousands of highly qualified professionals, contributes to the operations of supporting industries and enterprises and provides the means for international direct investments to and through our country.

Our Association currently counts 34 members, many of which are some of the largest fiduciary service providers in Cyprus, with extensive international presence. They employ more than 700 staff, manage over 32,000 companies of international activities, while contributing a rough estimate of 150 million Euros to Cyprus' GDP each year.

The importance of the sector cannot be emphasized enough. Despite the turbulence in the economy and the unfair attacks from different sides, which have shaken our business, the fiduciary sector needs to be supported and promoted. More than ever before, we need to optimise our offering, through enhancement of available solutions, elimination of inefficiencies, and by becoming a more investment-friendly location.

The new fiduciary Law is definitely a step forward, one that the Cyprus Fiduciary Association was arguing for right from the beginning of its establishment. Our principal stance, which has been strongly but responsibly supported since our creation, is that the supervision of the sector should be the job of a single authority. The existence of 3 different supervisory bodies is, among other, creating discriminatory issues leading to unfair competition among providers of the same exact services. But most importantly, especially during these critical and weak times for our country, it gives food for criticism and mud-throwing by the “international ravens” which are lurking for opportunities to attack. The recent allegations about money laundering are a striking example of such unfair attacks.

Overview of CFA Activities

During its short period of existence, the Cyprus Fiduciary Association has managed already to be considered as a prominent representative of the fiduciary sector. The founding members of the Association envisioned a policy-maker and not a social club. We truly believe that the fiduciary service providers, as hard-working contributors to the success of Cyprus during the last couple of decades, should have a strong voice; not to support their personal interests but to contribute in developing the economy and promoting our country.

The first main activity of the Association was our participation in the final stage of consultations for the new Law at the Finance Committee of the Parliament. Despite our late involvement, we managed to balance the discussions and avoid developments, which would further impair the reliability of the developed regulatory regime.

As an Association that aims in producing policies and contributing in the social discussion, we promoted the creation of committees, in which all our Members are entitled to participate. Currently, we have the following 4 committees:

1. Legal and Corporate Affairs
2. Financial Services
3. Tax & VAT
4. International Business

All four committees are working on specific tasks, giving the opportunity to everyone to contribute, exchange ideas and discuss issues of interest and concern. In addition, we have created an ad-hoc committee, which is currently working on possible amendments to the

AML Directive of the Cyprus Securities & Exchange Commission for its development in to a more relevant regulatory framework for fiduciary service providers. The proposals of the committee will be presented soon.

The Association has organised several events so far, in fulfilment of its mission to educate and inform the fiduciary sector. Such events included a professional briefing of our Members regarding the developments in the sector, an educational seminar regarding the role of the Directors in a company, an official presentation of the new Law and the related licensing process, an extraordinary Members' meeting right after the Eurogroup decision to exchange ideas and coordinate our actions, as well as other events for professional networking and promotion.

In view of the licencing application to CySEC, we have been assisting our Members by drafting questionnaires and providing clarifications on the application process, thus supporting also the Cyprus Securities & Exchange Commission in coping with the huge increase in the workload, stemming out of its duties related to the supervision of the sector. Furthermore, we have prepared an AML Manual, which was provided free of charge to our Members, in an effort to ensure the adoption of professional policies & procedures for anti-money laundering purposes but also to, hopefully, make the job of CySEC easier during the examination of the applications for license.

Furthermore, the Association is working in maintaining good relations with all public and private bodies, thereby enhancing its ability for public intervention. We are happy to maintain a good and professional relationship with the Cyprus Securities & Exchange Commission, which proves to be constructive in informing and assisting our Members but also all other interested parties, which seek information from our Association, on a daily basis.

We are committed to continue developing as an organisation in order to fulfil our targets. As we grow bigger in size, we are certain we will be able to strengthen our voice and in general become more valuable to our Members.

For the rest of 2013, we are planning a series of seminars with emphasis on the practical application of the AML requirements of CySEC. In addition, we are in contact with other Associations in an effort to coordinate our actions in coping with the economic crisis and its consequences. Our plans have changed after March and everyone needs to concentrate on how we can assist in bringing our economy back on its feet.

Cyprus Economy and the Way Forward

Jumping at the serious injury caused to the economy of Cyprus following the devastating decisions taken by the Eurogroup, countries in competition with Cyprus for attraction of foreign investors, are using various tactics, often aggressive and even unethical, in an effort to win business. The Cyprus Fiduciary Association, with the full cooperation and on behalf of its Members, has been replying to several such offensive communications, since the collective response to such attacks can help in sending out a stronger and clearer message.

Responding to allegations

1. The first and most important argument which we should counterpoise to these allegations is that Cyprus was and remains the foremost business hub for investments between Europe, Middle and Far East and Africa. The international business sector has remained relatively unscathed by the tax and other measures agreed between Cyprus and its lenders. Even the planned increase in the Corporate Tax rate is not expected to significantly affect companies of foreign interests, especially based on the current model of Cyprus, which mostly serves holding and investment companies. The traditional features that have made Cyprus an attractive structuring destination remain effectively unchanged; from the plethora of tax benefits such as the beneficial double tax treaties, the participation exemption on capital gains and dividend income, the absence of withholding tax on payments of dividends, interests and royalties to non-residents and a lot more to the modern and flexible legal regime, the island's well-educated human capital, first-rate infrastructure, strategic geographical location and a whole range of other advantages. Considering all these factors there is no doubt that Cyprus will continue to be an attractive location for international business planning.

2. A second factor to consider against these unfair claims is that Cyprus has always been an international business centre but not so much of a financial centre and that, at least at the time of the Eurogroup decisions, worked in a positive way. Even the total €67 billion deposited in Cyprus (including deposits by locals) seems tiny when compared with the total investments made through Cyprus and the funds that are "parked" in countries such as Switzerland, Luxembourg and Singapore.

3. Moreover, the reports from Moneyval and Deloitte Italy, regarding the effectiveness and efficiency of the AML practises in our banking system, prove that Cyprus is not a money laundering heaven. Nevertheless, statements from EU officials about deficiencies in those AML checks, do concern us especially because they might form an excuse for a second raid

against not only our banking institutions but also all financial and professional service firms and our international business sector at large.

The Way Forward

Dozens of suggestions and proposals may be, and have been, presented to the government for the development of the economy. They are all, of course very welcome, but we believe that before coming to the stage of examining different options, we should first come up with something which has always been missing from Cyprus...a plan! Without a plan it is difficult to define objectives, you cannot set goals and you cannot assess how well you are doing. We have long been surviving without one but not anymore.

1. Structural and organisational changes

Then, we need to work on our offering as a jurisdiction and try to remove the soonest possible any obstacle or inefficiency, which hinders international business activities. An argument that is usually put forward is that we need to keep abreast with the latest developments in the industry at an international level and to enhance the overall proposition of Cyprus. Although this could not be truer, it should not be forgotten that it is not enough to create new laws or update existing ones but it is more important to be able to enforce any measures taken and monitor their application. It is also important to show that the country cares about international investors and does whatever possible to enhance concepts such as ease of doing business and investor friendliness and protection.

a. The most prominent of such obstacles are currently the restrictions on banking transactions. It would not be an exaggeration to claim that they are causing a more serious damage than the decisions, which led to their implementation (resolution of Laiki, haircut in BoC). Normal business activities for international companies, like:

- Intercompany Loans / Repayment of Loans
- Financing of subsidiaries
- Payment of dividends
- Acquisition of shares
- Acquisition of real estate or any other assets abroad

are considered as “Exceptional Cases” for banking restriction purposes, causing serious operational problems and a resulting damage to the international business sector of Cyprus.

b. Coming to the more chronic ills of our economy and our sector in particular, the set of measures against the crisis should focus primarily on structural and organisational changes, which, besides anything else, have a much lower actual financial cost than any other action, something really important considering the hampered financial situation of the country. The aim should be to become more investor-friendly and make our country easier to do business with internationally.

- In Malta, for example, companies with share capital and accounts in foreign currency there, can pay their tax liabilities and can receive any tax refunds to which they may be entitled in that foreign currency in order to minimise foreign exchange risks. At the same time in Cyprus, the Tax Authorities are not willing to issue the Tax Circulars in English, not even to confirm translations made by professional bodies.
- Another example from many competing countries all over the world is the advanced tax ruling, which is specific and hands-on and allows investors to accurately estimate the tax burden on their investment. It also provides them with the degree of certainty required for what concerns tax liabilities when deciding between different investment locations. In contrast, in Cyprus the Tax Authorities are merely interpreting the Law when it comes to tax rulings.
- It is also imperative that for a better functioning of our economy there should be a much closer and loyal cooperation between the public and the private sector. For example, in the UK an employee of the local tax authorities, has been seconded to the Tax Faculty of the Institute of Chartered Accountants in England and Wales (ICAEW) in order to gather feedback from its members (who are considered as agents for tax purposes) on specific aspects of service. This person has been working with a member of the Tax Faculty who was herself seconded to HMRC in the previous year.
- Timeworn are, of course, appeals related to the need for the public sector to become more digitalised, the streamlining of all operations at the Registrar of Companies and other.

2. Strategic targets/ plans

Besides making our country a more efficient business location, some development activities need to be undertaken or intensified, which would strengthen its position as an international business centre. Such activities include:

- Finalisation of pending Double Tax Treaties and initiation of negotiations with other key countries.
- Development of new products that could be added in our arsenal of solutions offered to international clients. Some examples include the pending legislations on captive insurance companies, securitisation vehicles and leasing.
- On a currently hot topic, concerning the criteria for attracting wealthy individuals to invest in Cyprus in exchange of a permanent residence permit or a passport, the criteria could, as widely supported, become more competitive by comparison with the schemes offered in other countries, such as the UK, Spain and Ireland. The investment areas offered by the schemes could be expanded, by including options which would create direct and immediate benefits to the state, such as government bonds with low interest rate and long term maturity. Especially for the citizenship incentive what is equally important is for the decision-making powers to be taken out of the hands of the Council of Ministers and placed in those of an independent committee, something which will add objectivity and transparency to the whole process and will remove any suspicions of political motives behind the decisions taken. The recent announcement by the government for granting citizenship to those third-country nationals, who have suffered a loss, from the recent blow in the banking system, of at least EUR3million, is certainly a welcome move as it mitigates the impact on our relations, mainly with Russian investors. Equally well received are the recent changes, which have enhanced the flexibility of the permanent visa scheme.
- The government should also be credited for its efforts for the reduction of unemployment and the different plans it has recently announced. To that respect I would like to urge our Members and all employers of the sector to assist in this direction by utilising the scheme for the placement of young unemployed graduates in enterprises in order to acquire work experience.

3. Other ideas

Once the structural and development activities are undertaken, we can move on to exploring some other ideas, such as:

- The promotion of Cyprus as a corporate tourism destination. Citing Malta again, the country is doing an excellent job in promoting itself as a corporate tourism destination, with a respectable number of delegates visiting the island each year. This would also be an excellent opportunity for the international business sector to work together with the other great contributor to our country's economy, the tourism sector.

- We could also provide incentives in order to develop an international film industry (even for specific parts of a movie), using the examples of Luxembourg and Ireland and taking into account the significant natural advantages of our country.
- What is more, the strategic geographical position of our country and its business-friendly time-zone, in combination with some other advantages such as the multilingualism of Cypriots and the first-grade infrastructure, could be utilised to create an international call-centre industry in Cyprus, capitalising on the tendency of international companies to move out of other outsourcing locations, such as India, mainly because of service quality problems.

4. Branding Campaign

It is our belief, as well as that of other associations and collective bodies that the promotion of the country is more important than ever before, in order to try and restore, to the extent possible, its severely-damaged reputation and prevent business from flowing out in the first place and then develop new lines of business.

The Cyprus Fiduciary Association, right after the Eurogroup decision, took the initiative to contact other related organisations and to inform them of a set of possible action measures. We have contacted the Cyprus Investment Promotion Agency, the Institute of Certified Public Accountants of Cyprus and the Cyprus Bar Association, informing them of our willingness to contribute in any way, including financially. We have proposed and are working towards organising a conference for all market players, where these issues could be discussed further for the development of an action plan.

Conclusion

The list could easily grow very long but the purpose is not to identify all areas and practices on which Cyprus could fair better. What is important is the general conclusion that in order to survive and succeed in the ever competitive environment for attraction of international investments you have to keep up with international developments and practices and wherever possible, to even lead the way.

Besides, I don't want to leave a conclusion that the picture is black. To the contrary, as mentioned before, Cyprus is a strong player in the international business arena and has a plethora of advantages on offer to international investors, even after the serious damage

caused by the implementation of the financial rescue pack agreed with its international lenders, following the painful restructuring of its banking sector.

We should all try to help, in any way we can, to restore the picture presented by our country in order to hopefully recover from the serious injury the soonest possible and continue being part of the battle for attracting international investments for many years to come.

This is the time to work collectively to solve our economy's issues since everyone is affected by this situation. The Cyprus Fiduciary Association is at the disposal of all public and private authorities to work hand in hand, utilising everyone's experience and expertise.

Closing, I would like to thank every one of you for supporting the Association. I wish the second Annual General Meeting will be held under better conditions for our economy and our country in general and for sure with the Cyprus Fiduciary Association becoming an even more important player in the sector!

Thank you!