



TO : Cypriot Investment Firms
FROM : Cyprus Securities and Exchange Commission
DATE : 11 October 2012
CIRCULAR No : CI144-2012-17
FILE No : E.K. 6.1.14
SUBJECT : Amendment of Directive DI144-2007-05 of the Commission for the capital requirements of IFs

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

1. The amending Directive DI144-2007-05(A) of 2012 of the Commission for the capital requirements of IFs (the 'amending Directive') is published and amends the Directive DI144-2007-05 for the capital requirements of IFs.
2. The amending Directive was published in the Cyprus Government Gazette on the 5th of October 2012 and has immediate effect. The amending Directive along with its consolidation with the DI144-2007-05 of the Commission for the capital requirements of IFs have also been published in our website (http://www.cysec.gov.cy/directives_en.aspx).
3. The amending Directive was issued:
 - for harmonization purposes with the European Directives 2010/76/EC and 2010/78/EC and
 - to include the provisions regarding the consolidated supervision from the European Directive 2006/48/EC (amendment no. 135 of the amending Directive).
4. Furthermore, Form 144-05-06.1 has been revised (date of update 11 October 2012) in order to include the provisions of the amending Directive and has been published in our website (http://www.cysec.gov.cy/licence_members_5_en.aspx). CIFs are obliged to use the revised Form 144-05-06.1 for the calculation of their own funds and capital adequacy ratio from the 30th of September 2012 (submission date by 31 October 2012). In case that a CIF has already submitted the non-revised Form 144-05-06.1 for the 30th of September 2012, then it should also submit the updated version of Form 144-05-06.1 (date of update 11 October 2012).

This unofficial English text is for information purposes only. The official text is in the Greek language.

5. To facilitate the CIFs the following documents have been prepared:

- a summary of the main points of the European Directive 2010/76/EC (see Annex attached) and
- the changes made in Form 144-05-06.1 (published in our website (http://www.cysec.gov.cy/licence_members_5_en.aspx) next to Form 144-05-06.1 under «Notes»).

Sincerely,

Demetra Kalogerou
Chairman, Cyprus Securities and Exchange Commission

ANNEX

Summary of main changes of the European Directive 2010/76/EC (the ‘CRD 3’)¹

1. Establishment of remuneration policies (Amendment no. 34 of the amending Directive)

Under the “technical criteria concerning the organization and treatment of risks” the requirement for the establishment of remuneration policies is added. In addition, the criteria that such policies should meet are provided, and address the following matters (among others):

- The scope and purpose of the remuneration policies (they should relate to categories of staff which include senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on their risk profile).
- The responsibility for their implementation and periodic review.
- The remuneration of staff in control functions and senior officers in the risk management and compliance functions (specifically, staff engaged in control functions should be independent from the business units they oversee, have appropriate authority and be remunerated according to the achievement of the objectives linked to their functions, independent of the performance of the business areas they control).
- Performance-related remuneration.
- Fixed and variable remuneration (e.g. bonuses).
- Pension policy and early termination of employment contracts.
- Establishment of a Remuneration Committee (IFs that are significant in terms of their size, internal organization and the nature, scope and complexity of their activities are required to establish a remuneration committee. The Chair and the members of this committee should be members of the management body who do not perform any executive functions).

2. Re-securitization (Amendments no. 45 & 54 of the amending Directive)

A re-securitisation in CRD 3 is defined as “a securitisation where the risk associated with an underlying pool of exposures is tranced and at least one of the underlying exposures is a securitisation position”. Moreover, a re-securitisation position is defined as an exposure to a re-securitisation.

CRD 3 makes a separate reference to re-securitisation positions and assigns to them higher risk weights on the grounds that they are associated with higher risk than

¹ These are the most important CRD 3 amendments, also taking into consideration their degree of relevance to the CIFs.

normal positions in securitizations due to their increased complexity and sensitivity to correlated losses.

3. Additional information required in the Pillar III Disclosures (Amendments no. 78 - 87 of the amending Directive)

Under CRD 3, additional information is required for the Pillar 3 Disclosures, with respect to:

- The capital requirement for specific interest rate risk of securitization positions.
- The use of internal models for the calculation of their capital requirements.
- Exposures arising from securitization and re-securitisation positions, with separate disclosure of elements relating to the trading book (whereas up to now the disclosure obligation for securitizations related only to risks in the banking book).
- The remuneration policy and practices of investment firms, for those categories of staff whose professional activities have a material impact on the firms' risk profile, e.g. information concerning the decision-making process used for determining the remuneration policy, information on link between pay and performance, the criteria used for performance measurement, aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investment firm, etc).

4. Change of specific risk charge for market equity risk (Amendment no. 94 of the amending Directive)

The specific risk charge for market equity risk increases from 4% to 8% in all cases (i.e. the reduced charge of 2% in cases of equity instruments that meet certain criteria, subject to the Commission's approval, is no longer applicable).