
FOR : Cyprus Investment Firms

FROM : Cyprus Securities and Exchange Commission

DATE : June 16, 2016

CIRCULAR No. : C138

SUBJECT : Remuneration policies and practices

The Cyprus Securities and Exchange Commission ('the CySEC') wishes, with this circular, to remind the Cyprus Investment Firms ('CIFs') about their obligations concerning remunerations. In particular:

1. The CIFs must establish, implement and maintain remuneration policies and practices that comply on the one hand with the requirements of sections 18(2)(b) and 29 of the Investment Services and Activities and Regulated Markets Law of 2007, as in force ('the Law') in relation to conflicts of interests and on the other hand, with the conduct of business rules set out in section 36(1) of the Law.

Moreover, the remuneration policies and practices of CIFs must be consistent with:

- i. Circular C031 of CySEC concerning the guidelines on remuneration policies and practices.
 - ii. The questions and answers 2 and 3 of Chapter 2 of ESMA/2016/904, 'Questions and Answers – Relating to the provision of CFDs and other speculative products to retail investors under MiFID' of 1st June 2016.
2. When designing or reviewing the remuneration policies and practices, the CIFs must consider the conduct of business and conflicts of interest risks that may arise and take reasonable measures to avoid or manage them appropriately and efficiently.

The remuneration policies and practices must, *inter alia*, be designed in such a way so as not to create incentives that may lead persons to favour their own interests, or the CIF's interests, to the potential detriment of clients.

3. Furthermore, the CIFs must establish, implement and maintain adequate control mechanisms for compliance with remuneration policies and practices being implemented and maintained by the CIFs.

The compliance function of CIFs is involved both in the design and review process of the remuneration policies and practices as well as in their periodic assessment. The

provisions of Circular C030 of CySEC on certain aspects of the compliance function requirements are fully applicable in this case.

4. In case of outsourcing functions to service providers, the CIFs remain fully responsible for discharging all of their obligations under the Law and the Directives issued pursuant to, including the requirements of point 1 above.

It is noted that the same remuneration policies and practices adopted by the CIF, are applied to the service provider and to its staff as well, when they are acting on behalf of the CIF.

It is particularly stressed that the relationship and obligations of the CIFs towards their clients are not altered in the case of outsourcing functions to service providers.

5. Examples of remunerations that seem to create conflicts of interests and are not in line with the conduct of business rules are:
 - i. Remunerations as a percentage of the total volume of transactions, or the value of transactions, or the value of clients' deposits.
 - ii. Remuneration based on retention of clients e.g. based on a predefined percentage of cancellation of withdrawal requests that an employee manages to achieve.
 - iii. Remunerations based on the number of potential clients who have actually become clients.
 - iv. Remunerations as a percentage of the net revenue accruing to the CIF in respect to clients' transactions (closed P&L of clients).
 - v. Fixed remunerations based on the number of new clients attracted.

Further examples are given in Circular C031 of CySEC, as well as in ESMA document ESMA/2016/904.

6. All CIFs are requested to:
 - i. Review their remuneration policies and practices and ensure that they comply with all the above mentioned.
 - ii. Take, where necessary, immediately and without any delay, corrective actions.
 - iii. Submit to CySEC a confirmation by all board members as to their compliance with this circular. In addition, an outline of the policies and practices of remunerations established, implemented and maintained by the CIF and where applicable, the corrective measures adopted for compliance purposes, must also be included in the confirmation.

The above confirmation should be submitted electronically to the email address supervision@cysec.gov.cy the soonest and not later than **September 16, 2016**.

Yours faithfully

Demetra Kalogerou
Chairman of the Cyprus Securities and Exchange Commission