
TO : Cyprus Investment Firms

FROM : Cyprus Securities and Exchange Commission

DATE : 24 October 2025

CIRCULAR No : C736

SUBJECT : Observations and recommendations on the implementation of the prudential framework of Investment Firms

The Cyprus Securities and Exchange Commission (“the CySEC”) wishes with this Circular to bring to the attention of the Cyprus Investment Firms (‘CIFs’) a number of key observations arising from its desk-based reviews and monitoring of compliance with the Prudential Supervision of Investment Firms Law (the ‘**Law 165(I)/2021**’) and the Regulation (EU) 2019/2033 on the prudential requirements of investment firms (the ‘**IFR**’).

A. Timely submission of prudential reporting

1. Inconsistencies have been observed in the timely submission of the prudential reporting requirements via CySEC’s XBRL portal, as required by Article 54 of the IFR and [Commission Implementing Regulation \(EU\) 2021/2284](#) and of the remuneration reporting requirements. In some instances, reports were submitted late or not at all.
2. CIFs must:
 - i. Submit all required reports **within** the required deadlines.
 - ii. Regularly consult CySEC’s website for the latest version of the templates to be submitted and the [EBA’s website](#) for the latest reporting framework in place.

B. Ongoing compliance with prudential requirements

3. Certain CIFs fail, on a continuous basis, to:
 - i. Meet their prudential requirements under Articles 9, 11 and 43 of the IFR.
 - ii. Notify CySEC as soon as these situations are identified.

iii. Take immediate remedial actions.

4. CIFs are expected to adopt a **proactive** approach by:

- i. Continuously monitoring their prudential requirements.
- ii. Implementing timely corrective measures to address any emerging deficiencies or risks of non-compliance.

C. Inconsistencies of data

5. Material inconsistencies have been identified between data reported in Class 2 and 3 prudential reporting (via XBRL portal) and other sources, such as audited financial statements, QST-CIF Form and management accounts for the same reporting period.

Common material discrepancies include:

- i. Profit/Loss for the period
- ii. Accumulated losses or retained earnings
- iii. Other reserves
- iv. Own funds of the CIFs held with credit institutions /Unencumbered short-term deposits
- v. Liquid assets
- vi. Fixed overhead expenses

Such practices lead to inaccurate and misleading reporting of own funds, capital ratios and liquidity metrics for the CIFs concerned.

6. CySEC further notes that the figure reported under 'Annual fixed overheads of the previous year after distribution of profits' (Tab I_03.00, row 0020 of the Class 2 and 3 prudential forms) did not, in some cases, align with the most recent audited financial statements of the CIFs. This figure should remain unchanged until the CIF's next audited financial statements are issued. Additionally, CIFs must also complete row 0200, 'Projected overhead of the current year', in Tabs I_03.00/I_03.01, of the same forms.

7. CIFs must:

- i. Ensure consistency across all submitted data.
- ii. Ensure that, during the conversion of the templates from Excel to XBRL format, all data are accurately and completely mapped.
- iii. Refer to [Commission Implementing Regulation \(EU\) 2021/2284](#) for correct completion of the Class 2 and 3 prudential forms.

D. Remuneration policies

8. Some Class 2 CIFs¹ failed to comply with the requirements:
- i. of at least 50% of the variable remuneration should consist of the instruments listed in Section 26 (1) (j) of the Law 165(I)/2021,
 - ii. of deferral of at least 40 % of the variable remuneration over a three- to five-year period as appropriate (Section 24 (1) (I) of the Law 165(I)/2021),
9. Some Class 2 CIFs failed to enhance their Remuneration Policies with the relevant provisions of the Law 165(I)/2021 and the [EBA's Guidelines on sound remuneration policies under Directive \(EU\) 2019/2034](#).
10. Class 2 CIFs should ensure compliance with sections 24 and 26 of Law 165(I)/2021 regarding remuneration policies where applicable and the relevant EBA Guidelines.

E. Establishment of Risk Committee and Remuneration Committee

11. Cases have been identified where CIFs, that do not meet the criteria set out in point (a) of section 26(8)² of Law 165(I)/2021, did not fully comply with the requirements for the establishment and composition of Risk and Remuneration Committees under section 22 and 27 of Law 165(I)/2021. Observations included:
- i. Absence of Risk Committee and/or Remuneration Committee (the 'Committees') as required by sections 22(4) and 27 of Law 165(I)/2021, respectively.
 - ii. The members of the Committees established were executives directors.
 - iii. Single person Committees.
 - iv. Lack of gender balance in the remuneration committee.
12. CIFs that are required to establish such committees must review their governance arrangements to ensure compliance with sections 22 and 27 of Law 165(I)/2021.

¹ Paragraphs (j) and (I) of subsection (1) and subsections (6) and (7) of section 26 of Law 165(I)/2021 shall not apply to: (a) a CIF, where the value of its on and off-balance sheet assets is on average equal to or less than 100 million Euro over the four-year period immediately preceding the given financial year; and (b) an individual whose annual variable remuneration does not exceed 50 000 Euro and does not represent more than one fourth of that individual's total annual remuneration.

² Section 26(8) of Law 165(I)/2021 refers to a CIF where the value of its on and off-balance sheet assets is on average equal to or less than EUR 100 million over the four-year period immediately preceding the given financial year.

F. Internal governance

13. Cases have been identified where Class 2 CIFs have not implemented policies regarding conflicts of interest in the context of loans and other transactions with members of their management body and their related parties in line with the [EBA's Guidelines on internal governance under Directive \(EU\) 2019/2034](#).
14. Class 2 CIFs should enhance their governance policies with the relevant provisions of sections 20 and 22 of the Law 165(I)/2021 and the [EBA's Guidelines on internal governance under Directive \(EU\) 2019/2034](#).

G. Liquid assets

15. Certain CIFs included items as 'Unencumbered short-term deposits at a credit institution' which did not meet the definition of Article 43(1) of the IFR. Examples include:
- i. Funds held with Electronic Money Institutions (EMIs), Payment Service Providers (PSPs), Liquidity Providers/Brokers.
 - ii. Contributions to Investor Compensation Fund.
 - iii. Clients' funds maintained as buffer in designated clients' bank accounts.
16. In accordance with the provisions of Article 43(1) of the IFR concerning liquid assets, unencumbered short-term deposits qualify as liquid assets **only** if they are unencumbered short-term deposits **at a credit institution**. Therefore, any amount held with Electronic Money Institutions (EMIs), Payment Service Providers (PSPs), Liquidity Providers, Brokers, or similar entities and clients' funds maintained as buffer in designated clients' bank accounts should not be included in the figures reported under unencumbered short-term deposits in section I_09.00 of Class 2/3 prudential reporting.

In relation to unencumbered short-term deposits at third country banks, CIFs are advised to consider the relevant [EBA Q&A 2021 6299](#).

17. Some CIFs included "Contributions to Investor Compensation Fund" as part of their liquid assets under item 'Regional government/local authorities' assets'. This is not acceptable as the CIF's contribution to ICF does not meet the requirements of Article 10(1), point (c)(iii) and (iv), of Delegated Regulation (EU) 2015/61. As per CySEC's Circular [C334](#), CIFs should deduct the ICF contribution as presented in their accounting records from the Common Equity Tier 1 Capital.

H. Prudential consolidation

18. Cases have been observed where:

- i. Changes in group structures were not followed by appropriate assessments regarding prudential consolidation obligations under the IFR and Law 165(I)/2021. As a result, CIFs did not comply with the obligations laid down in Parts Two, Three, Four, Six and Seven of the IFR on the basis of their consolidated situation.
- ii. The assessment of whether an entity meets the definition of a financial institution (per Art. 4(1)(14 of IFR) was incorrect.

19. Therefore, CIFs must assess on a regular basis and when there is a change in their group structure whether:

- i. Their EU parent entity meets the definition of a Union parent investment holding company.
- ii. The CIF meets the definition of a Union parent investment firm.

20. While assessing whether an undertaking meets the term financial institution, the CIF should:

- i. Identify whether the undertaking merely acquiring holdings or pursue one or more of the activities listed in points (2) to (12) and point (15) of Annex I to Directive 2013/36/EU.

The concept of 'acquiring holdings' should be given its literal meaning (i.e. whether the undertaking concerned has acquired holdings in other entities). The activity of acquiring holdings does not need to be ongoing.

- ii. In case the undertaking performs other activities than the ones listed in point 19(i) above, then the term principal activity should be assessed.

The term "Principal activity" is any activity which represents more than 50% of the undertaking's total assets (including relevant off balance sheet activities), as long as it relates either to the acquisition of holdings in undertakings that pursue one or more of the activities set out in the definition of financial institution, or directly to the pursuance of the said activities.

21. CIFs that fall under prudential consolidation should consult the [Regulation \(EU\) 2024/1771](#) which specifies the details of the scope and methods for prudential consolidation of an investment firm group.

I. Completion of Form 165-03

22. Some CIFs did not accurately complete Section C ‘Audited financial statements’ of Form 165-03, as they failed to:

- disclose that their external auditors’ opinion was modified and give details and
- state the link of their Pillar III disclosures.

23. CIFs are advised to ensure that:

- i. All fields are completed accurately and fully.
- ii. Any modifications to the auditor’s opinion are clearly reported.

J. Next steps

24. CIFs are advised to undertake a comprehensive review of their practices in relation to the prudential framework, including reporting and governance processes, to ensure full compliance with the requirements laid down in Law 165(I)/2021, the IFR, the applicable Delegated Regulations and the EBA’s Guidelines.

25. CySEC will continue its supervisory monitoring and will take appropriate measures, including administrative sanctions, or implement other supervisory measures, as deemed necessary, in the event of non-compliance.

Sincerely,

Dr. George Theocharides
Chairman
Cyprus Securities and Exchange Commission