

Setting Up A Cyprus Investment Firm (CIF)

CAPITAL REQUIREMENTS - TIME FRAME - TAXES - FEES

A. INTRODUCTION

Investment firms are regulated by the Cyprus Securities and Exchange Commission (CySEC), under the CIFs and Investments Firms Law. (www.cysec.gov.cy)

The investment firms that offer the services that are listed in Appendix 1 must obtain a license from CySEC. The term “investment firm” includes, amongst others, portfolio managers, broker companies, investment advisers, forex trading companies and binary options trading companies, which all fall under the definition of CIFs and are regulated by CySEC.

B. LICENSE REQUIREMENTS

For CySEC to grant CIF authorisation, a formal application procedure needs to be followed, and certain requirements must be met, the most important of which are stated below.

1. Capital Requirements

The minimum capital requirement for a CIF depends on the type of services offered:

1. A CIF other than those referred to in subsection (b) below, shall have initial capital of €730.000.
2. A CIF that does not deal in any financial instruments for its own account or underwrite issues of financial instruments on a firm commitment basis, but which holds clients' money and/or clients' securities, and provides one or more of the following investment services must have an initial capital of at least €125.000:
 - a. The reception and transmission of investors' orders for financial instruments;
 - b. The execution of investors' orders for financial instruments;
 - c. The management of individual portfolios of investments in financial instruments
3. A CIF which executes investors' orders for financial instruments is allowed to hold such instruments for its own account if the following conditions are met:
 - a. Such positions arise only as a result of the CIF's failure to match investors' orders precisely;
 - b. The total market value of all such positions is subject to a ceiling of 15% of the CIF's initial capital;

- c. The CIF meets the requirements set out in Articles 92 to 95 and Part Four of Regulation (EU) No 575/2013;
 - d. Such positions are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.
- 4. A CIF referred to in subsection (b) above shall have initial capital of €50.000 where it is not authorised to hold clients' money or securities, to deal for its own account, or to underwrite issues and/or placing of financial instruments on a firm commitment basis.
- 5. The holding of non-trading positions in financial instruments in order to invest own funds shall not be considered as dealing for its own account for the purposes of subsections (b) and (d) above.
- 6. Coverage for CIFs referred to in point (2)(c) of Article 4(1) of Regulation (EU) no 575/2013, shall take one of the following forms:
 - a. initial capital of €50.000,
 - b. professional indemnity insurance covering the whole territory of the European Union or some other comparable guarantee against liability arising from professional negligence, providing at least €1.000.000, for a single claim, and on aggregate, at least €1.500.000 per annum for all claims.
 - c. A combination of initial capital and professional indemnity insurance in a form resulting in a level of coverage equivalent to that referred to in (i) or (ii) above.

2. Other Requirements

- a) When applying for a license, a firm must provide, amongst other documents, a business plan, an operations manual (which should include the Anti-Money Laundering Procedures), organisational and group structure, completed questionnaires from the members of the board, managers and shareholders.
- b) The Board of Directors of the CIF shall consist of at least two executive members and two independent non-executive members. The majority of the members shall be Cyprus residents.

C. TIME FRAME

Our firm has experience of setting up a Cyprus Investment Firm. We appoint a local law firm to assist us with the preparation of the special memorandum and articles of the company. We apply to the Registrar of Companies, firstly for approval of the company's name, then for registration of the company, and then the CySEC application is prepared after collecting all necessary information from the shareholders. After examination and resolution of any issues, CySEC authorises the CIF and grants it a licence. The above procedure, from commencement to final approval by CySEC can be completed in about 5-6 months.

D. TAXES IN CYPRUS

1. For the CIF

a. Profits from CIF's activities

Corporation tax on net profit is 12,5%. However, gains from the sale of titles, and, in most cases, dividends received are exempt from tax.

There is no withholding tax on dividend, interest and royalties paid to non-residents.

b. Capital Gains

Capital gains are not taxable in Cyprus except for the 20% tax on gains on immovable property that is located in Cyprus, and on any gain from the sale of shares in companies that own immovable property in Cyprus. All other gains of a capital nature are not taxable.

c. VAT

Value Added Tax issues can be very complex for a CIF, due to the fact that some of the services offered by the CIF could be taxable, and others exempt. We will be happy to provide advice on all VAT issues.

2. For the CIF's Expatriate Employees

Expatriate employees enjoy considerable tax advantages, and social insurance contributions are only 7,8% on gross salary.

Indicative Expatriate's and Employer's costs.

Gross Annual Salary	Employee social security	Income tax and employee contribution	Total Deductions	Net Salary	Employer contribution	Employer cost
€	€	€	€	€	€	€
36.000	2.808	1.490	4.298	31.702	4.380	40.380
50.000	3.900	4.467	8.367	41.633	6.220	56.220
75.000	5.850	12.247	18.097	56.903	7.575	82.575
120.000	4.243	10.798	15.041	104.959	9.263	129.263

For more information on the advantages of CIFs and their expatriate staff, please ask for our leaflet LIB01696.

E. FEES AND CHARGES

1. Costs of setup and obtaining CIF authorisation:

Our fee for obtaining a CIF licence depends on the number of licenced services the CIF will offer. Additional costs to be invoiced as out of pocket expenses relate to the incorporation and set up of a Cyprus limited liability company and CySEC fees which can range from €4.000 to €10.000.

2. Cost of Administration and other services

We are able to provide all of the services a CIF and/or its shareholders require. We provide a full administration, tax, VAT, anti-money laundering compliance, accounting, and internal and statutory audit service.

The cost will depend mainly on the type and size of the CIF and the level of activity. Our fee is quoted on a case by case basis.

3. CIF costs to be included in the financial planning

A CIF will need to maintain a minimal physical presence in Cyprus, in order to maintain its license. Outsourcing is allowed to a degree, but some personnel are still required to be located in Cyprus.

Therefore, a reasonable annual budget for the CIF's operational expenses, including the salaries of employees as well as other operational expenses, (e.g. information technology, telephony, electricity, office rent, external and internal auditors, compliance, other professional fees, consumables, etc.,) but not including the salaries of their chief executive and financial officers, will be around €150.000 - €200.000 per annum.

Latest update: 06 October 2015

Appendix 1

I. Investment Services (Part I of the Third Appendix of the Law 144(I)/2007)

- I(1) Reception and transmission of orders in relation to one or more financial instruments
- I(2) Execution of orders on behalf of clients
- I(3) Dealing on own account
- I(4) Portfolio management
- I(5) Investment advice
- I(6) Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
- I(7) Placing of financial instruments without a firm commitment basis
- I(8) Operation of Multilateral Trading Facility

II. Ancillary Services (Part II of the Third Appendix of the Law 144(I)/2007)

- II(1) Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
- II(2) Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- II(3) Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings
- II(4) Foreign exchange services where these are connected to the provision of investment services
- II(5) Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments
- II(6) Services related to underwriting
- II(7) Investment services and activities as well as ancillary services of the type included under points I and II above related to the underlying of the derivatives included under point III (5), (6), (7) and (10) where these are connected to the provision of investment or ancillary services.

Contact us

We will be happy to provide further information.

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