



Cyprus Business Headlines

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DOUBLE TAX TREATY ROUND-UP

The DTA between Cyprus and Iceland took effect on 1 January 2015

The new double taxation agreement between Cyprus and Iceland, which was signed on 13 November 2014, entered into force on 22 December 2014. The agreement is based on the OECD Model Convention for the Avoidance of Double Taxation on Income and its provisions will have effect for taxes withheld at source that are paid or credited on or after 1 January 2015 and for other taxes in respect of tax years beginning after that date.

The DTA between Cyprus and Lithuania took effect on 1 January 2015

The double taxation agreement between Cyprus and Lithuania also took effect on 1 January 2015. This agreement is also based on the OECD Model Convention and its provisions will have effect for taxes withheld at source that are paid or credited on or after 1 January 2015 and for other taxes in respect of tax years beginning after that date.

The new agreements extend Cyprus's network of double taxation agreements to cover 53 countries.

Cyprus among the first signatories to the new OECD/G20 standard on automatic tax information exchange

Cyprus is among the 51 jurisdictions that signed the new OECD/G20 standard on automatic exchange of information on 29 October 2014 at the annual meeting of the Global Forum on Transparency and Exchange of Information for Tax Purposes held in Berlin.

The new Standard for Automatic Exchange of Financial Account Information in Tax Matters provides for automatic exchange of all financial information on an annual basis.

Cyprus has committed to implementing the Standard on a reciprocal basis with all interested jurisdictions. Cyprus is a member of the "Early Adopters" group of almost 40 countries that have committed to work towards launching their first information exchanges by September 2017. Others are expected to follow in 2018.

For further information please contact [Stavros Supashis](#).

SIGNATURE OF CYPRUS – USA INTER-GOVERNMENTAL AGREEMENT UNDER THE AMERICAN FOREIGN ACCOUNT TAX COMPLIANCE ACT

On 2 December 2014 the Cyprus finance minister and the American ambassador to Cyprus formally signed the intergovernmental agreement ("IGA") between Cyprus and the USA under the Foreign Account Tax Compliance Act ("FATCA"), an American tax measure enacted in 2010 with the purpose of implementing mechanisms designed to prevent and detect US tax evasion on income derived by US persons (citizens or residents) from sources outside the US and to improve taxpayer compliance and create greater transparency by strengthening information reporting and compliance with respect to US accounts and assets held overseas.

Foreign financial institutions ("FFIs") as defined in FATCA are required to report specified information annually to the American Internal Revenue Service ("IRS") regarding direct and indirect US account holders. A US account holder is someone displaying one or more of the following characteristics:

- ≡ US citizenship or lawful permanent resident (green card) status;
- ≡ a US birthplace;
- ≡ a US residence address or a US correspondence address (including a US PO box);
- ≡ standing instructions to transfer funds to an account maintained in the United States, or directions regularly received from a US address;
- ≡ an "in care of" address or a "hold mail" address that is the sole address with respect to the client; or
- ≡ a power of attorney or signatory authority granted to a person with a US address.

FFIs must also report annually to the IRS on any account holders that are foreign entities in which a US person owns more than 10% of the shares of a corporation (in vote or value) or of a partnership or of a trust. For foreign investment vehicles, any percentage of ownership is reportable.

There are two principal forms of IGA, known as "Model 1" and "Model 2". Under the Model 1 IGA institutions

subject to FATCA report information to their own tax authorities for onward transmission to the US authorities. Under Model 2, institutions provide information direct to the American authorities. In common with other EU members, in 2013 Cyprus undertook to enter into a Model 1 IGA and prior to the signature of the formal agreement Cyprus was treated as having an agreement "in - effect" from 22 April 2014, which allowed Cyprus-resident FFIs to register on the IRS FATCA website.

The penalties for non-compliance are significant. A 30% withholding tax may be imposed on transactions with overseas financial institutions and other entities that fall within the scope of FATCA unless the institution concerned has concluded an agreement with the IRS defining its reporting obligations, or the institution's home country has concluded an IGA with the USA. In addition, failure to comply with FATCA may involve legal and reputational issues which could disrupt business relationships with other financial institutions which are FATCA compliant and lead to loss of business. The rules apply to all FFIs even if they do not have US clients.

The Inland Revenue Department, as the reporting authority under the IGA, will issue guidelines for the interpretation of the agreement in due course. In addition the Assessment and Collection of Taxes Law is to be amended to include the collection and automatic exchange of information in line with FATCA.

For further information please contact [Philippos Aristotelous](#).

THE ALTERNATIVE INVESTMENT FUNDS LAW -TRANSITIONAL ARRANGEMENTS FOR EXISTING FUNDS

Following the entry into force of the Alternative Investment Funds Law of 2014 ("the AIF Law") on 27 July the Cyprus Securities and Exchange Commission ("CySEC") has issued guidance on a number of practical implementation issues. The AIF Law regulates the establishment and operation of Alternative Investment Funds (AIFs) in Cyprus and replaces the International Collective Investment Schemes Laws of 1999 and 2000 ("the ICIS Laws"). It designates CySEC as the supervisory authority for AIFs.

Following article 4(1)(a) of the Alternative Investment Fund Managers Directive, the AIF Law defines an AIF as "a collective investment undertaking, including investment compartments thereof, which raises capital from a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of those investors and is not authorised as an Undertaking for Collective Investments in Transferable Securities (UCITS) in accordance with section 9 of the Open-Ended Undertakings for Collective Investments Law of 2012." International Collective Investment Schemes (ICIS) established under the ICIS Laws fall within this definition. Article 120(1) of the AIF Law provides that ICIS that have been authorised under the ICIS Laws by the Central Bank of Cyprus ("CBC") may continue to operate on one of the following bases:

- (a) As AIFs with a limited number of persons, subject to complying with articles 114 – 118 of the AIF Law and providing CySEC the information and documents specified in article 120(1)(a). Under this option they may continue to operate on the basis of the authorisation issued by the CBC, and need not apply for re-authorisation by CySEC;
- (b) As AIFs under Part II of the AIF Law, subject to obtaining authorisation from CySEC in accordance with article 13 of the AIF Law; or
- (c) As Alternative Investment Fund Managers, subject to obtaining authorisation from CySEC in accordance with article 8 of the Alternative Investment Fund Managers Law of 2013.

The deadline for submission of the information referred to in (a) and the applications referred to in (b) and (c) above was 27 November 2014. Until that date, or until the information was submitted to CySEC, whichever occurred first, the CBC continued to supervise ICIS that it had authorised. ICIS that have submitted an application may continue to operate until their application has been considered and they have been informed of the outcome. ICIS that do not follow this procedure, or that do not fulfil the conditions of the AIF Law for continuation on the chosen basis, will be automatically dissolved in accordance with the ICIS Laws.

The CBC has already transferred to CySEC its register of the ICIS that it has authorised. Any pending applications at 27 July 2014 from ICIS meeting the requirements of article 114(1) of the AIF Law were transferred from the CBC to CySEC and will be determined by CySEC without any need for a new application to be submitted. CySEC will contact the applicants to resolve any questions.

The enactment of the new AIF Law marks a long-awaited modernisation of Cyprus's investment funds regime. Combined with the island's stable and transparent political legal and commercial infrastructure, its reliable and familiar common-law legal system and the excellent professional and financial services available at a competitive cost, it should transform Cyprus into a major force in the international funds market. Cyprus's tax regime is particularly beneficial, offering a corporate income tax rate of 12½%, among the lowest in the EU, full exemption from tax on gains from trading in securities and a generous participation exemption regime on foreign dividends in conjunction with an extensive network of double tax treaties for international tax planning.

For further information please contact [Elias Neocleous](#).

CYSEC CIRCULAR ON ANTI-MONEY LAUNDERING COMPLIANCE REPORTS

Cyprus investment firms, UCITS management companies, alternative investment fund managers and providers of corporate and fiduciary management services regulated by the Cyprus Securities and Exchange Commission ("CySEC") are required to submit to CySEC an annual report by their appointed anti-money laundering

compliance officer.

The purpose of the report is to inform the board of directors of the entity concerned of the effectiveness of its policy, practices, measures, procedures and controls for the prevention of money laundering and terrorist financing, to identify any weaknesses and to set out proposed corrective measures, together with a timetable for implementation. CySEC regards this report as a significant tool for assessing regulated entities' compliance with their obligations regarding the prevention of money laundering.

In December 2014, in advance of the end of the financial and reporting year, CySEC issued a circular to entities it regulates reminding them of their obligations and highlighting areas it has identified as requiring attention. In particular, reports are required to cover all the issues listed in paragraph 10(4) of CySEC Directive DI144-2007-08 of 2012 regarding the prevention of money laundering and terrorist financing. Reports must deal exclusively with anti-money laundering issues and should not be part of any other report that the regulated entity is obliged to prepare, such as a general compliance report. The circular, which is available on the CySEC website, includes an appendix detailing the areas to be covered.

In the event of failure to comply with the requirements the regulated entity, its board of directors and the compliance officer are subject to sanctions under the Prevention and Suppression of Money Laundering and Terrorist Financing Laws of 2007-2013, which include a fine of up to €200,000 and suspension or revocation of the entity's licence.

For further information please contact [Elias Neocleous](#).

ANNUAL RISK ASSESSMENT OF CORPORATE MANAGEMENT AND FIDUCIARY SERVICE PROVIDERS

Since the beginning of 2014 the Cyprus Securities and Exchange Commission ('CySEC') has been developing a risk-based supervision framework. By focusing on the entities and activities that are of greatest importance in terms of their potential impact it aims to increase the effectiveness of its regulatory activities. Consequently, CySEC's assessment of the risk that each individual entity it regulates poses will determine the intensity of supervision.

A risk assessment is to be performed for all entities at least every year and the outcome will be used to define each entity's monitoring program for the following year. The assessment will be based on the impact, or potential harm that could be caused by a particular set of circumstances, weighted by the estimated probability of those circumstances actually occurring. Risk measures may be quantitative or qualitative. Impact is assessed on the basis of numerical and financial data extracted from the entity's regulatory returns. Probability is assessed on a range of criteria including the entity's governance arrangements and its susceptibility to being used for financial crime.

Based on the assessment regulated entities will be assigned one of four risk ratings, with the intensity of supervision varying with the assessed degree of risk.

CySEC has now issued the risk assessment package relating to providers of corporate management and fiduciary services, which it refers to as administrative services providers ("ASPs"). All authorised ASPs are required to complete the specified form for the reporting period 1 January to 31 December 2014 and submit it via CySEC's electronic transaction reporting system.

For further information please contact [Elias Neocleous](#).

DEPARTMENT OF MERCHANT SHIPPING ISSUES LISTS OF COUNTRIES WHOSE SHIPS ARE SUBJECT TO TONNAGE TAX SURCHARGE FOR 2014

In order to promote its objective of improving the quality of Cyprus shipping, the Merchant Shipping (Fees and Taxing Provisions) Law of 2010, Law 44(I)/2010 ("the Tonnage Tax Law") imposes a surcharge on the tonnage tax payable in respect of qualifying vessels registered in countries which appear in the Grey List or the Black List of the Paris Memorandum of Understanding. Sections 17(2), 27(2) and 40(2) of the Tonnage Tax Law respectively provide for a surcharge, payable by owners, charterers or managers, of 30 per cent for ships registered in countries appearing in the Grey List and 60 per cent for ships registered in countries appearing in the Black List.

On the basis of the annual report of the Paris MOU for the year 2013, the Department of Merchant Shipping has announced the lists of flags concerned for the purposes of calculating tonnage tax for 2014, which can be found [here](#).

Section 34(4) of the Tonnage Tax Law provides that ships under management flying a flag which appears in the Black List of the Paris MOU will qualify for the tonnage tax system only if the technical and crew management of every such ship is entirely performed from the territory of an EU Member State. In the event of breach of this requirement section 54 of the Law empowers the Department of Merchant Shipping to impose sanctions including administrative fines and exclusion from the tonnage tax system.

For further information please contact [Costas Stamatiou](#).

AMENDMENTS TO THE LIBERALISATION OF THE INTEREST RATE AND RELATED MATTERS LAW OF 1999

On 9 September 2014 a new law amending the Liberalisation of the Interest Rate and Related Matters Law of

1999 ("the LOIRL") was published in the official gazette and took effect. The LOIRL, which took effect on 1 January 2001, aims to provide transparency in interest and other charges made by authorised credit institutions by requiring them to:

- ≡ inform their borrowers of the rate of interest applicable to the loan or credit facility from time to time, the method of calculation and the time at which it is due to be collected or charged to the borrower's account;
- ≡ provide borrowers with details regarding any other charges or the recovery of any expenses concerning the loan or credit facility;
- ≡ inform borrowers of any change in the interest rate, the method of its calculation or the time at which interest becomes payable and, generally, of any other change; and
- ≡ capitalise interest no more than twice per year.

The amendments to the LOIRL, which were enacted at the same time as amendments intended to streamline and increase the effectiveness of the law relating to forced sales of mortgaged property, provide further safeguards to borrowers. With effect from 9 September 2014 lenders must:

- ≡ inform the borrower in writing of any changes in the base rate used for calculation of interest or in the interest repayment date;
- ≡ not utilize the provisions of any existing provision in any loan agreement that contractually entitle it to unilaterally increase the margin between the base rate and the rate charged to the borrower;
- ≡ clearly set out in any credit facility agreement the additional rate payable on overdue instalments.

The additional rate payable on overdue instalments should not exceed 2 per cent per annum. Any higher rate creates a rebuttable presumption that the rate is penal and, unless the lender proves that the rate charged represents the actual damage it has suffered as a result of the delay in payment, the additional charge is void. The Central Bank of Cyprus may impose a fine of up to EUR 100,000 on any credit institution breaching these provisions, together with a further fine of up to EUR 10,000 per day and further sanctions in the event of continued default.

For further information please contact [Panos Labropoulos](#).

NEWS ABOUT OUR FIRM

Conference on "Private client strategies at the dawn of fiscal transparency"

In conjunction with Geneva-based Academy & Finance, a leading organiser of conferences and seminars in the field of finance, particularly private wealth management, Andreas Neocleous & Co is organising a two-day conference on the new regulatory challenges facing professionals in Cyprus and their clients, analysing their implications and potential solutions.

Titled "Private client strategies at the dawn of fiscal transparency", the conference will take place in Limassol on 5 and 6 February 2015. There will be a distinguished team of speakers from around the world, including Elias Neocleous, head of our corporate and commercial department, and others from our firm. For more details please follow [this link](#).

Andreas Neocleous & Co LLC wins Citywealth International Financial Centre Award for a third successive year

For a third consecutive year Andreas Neocleous & Co LLC has been recognised as "Cyprus Law Firm of the Year" at the prestigious Citywealth International Financial Centre Awards. Mr Peter Munday, President of Cicero League of International Lawyers, represented the firm at the ceremony and received the award on our behalf.

Now in their fourth year, the Citywealth International Financial Centre Awards were established to highlight the excellence of advisors and managers in the private wealth sector in the major international financial centres. In a period of great turbulence for clients quality advice is at a premium and this is when the best of the best really stand out. Winners were selected on grounds of achievement, innovation, expertise and service, and were announced at a dinner on 21 January 2015 at the Grange City Hotel in London, hosted by Karen Jones, Editor of Citywealth magazine.

The awards were judged by an international panel of highly respected practitioners from all sectors with extensive experience of working with advisors in all the jurisdictions covered. In addition, online voting for the awards meant that the views of sector participants such as ultra high net worth individuals, family offices, intermediaries, trustees and private bankers were taken into account in selecting the award winners.

Commenting on the award, Andreas Neocleous said, "We are proud to take our place alongside such respected firms as the other award winners. The award as Cyprus Law Firm of the Year bears testimony to my colleagues' efforts to constantly improve our service quality, and I should like to express my gratitude to them for their support, to our clients for their confidence in us and to everyone who voted for us."

Andreas Neocleous & Co LLC shortlisted for "The Lawyer" award for Law firm of the year: Eastern Europe and The Balkans

We are delighted to announce that we have been shortlisted for an award in the sixth annual Lawyer European Awards, organised by "The Lawyer", the leading UK magazine and multi-platform media title for private practice lawyers, in-house counsel and barristers' chambers covering the business of commercial law.

We have been shortlisted in the category, Law firm of the year: Eastern Europe and The Balkans, which covers Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Cyprus, Greece, Montenegro, Serbia and Slovenia, alongside firms based in Albania, Austria, Hungary and Serbia.

The award winners will be announced at a ceremony in London on 12 March. The shortlisted firms have been selected by the judging panel as having demonstrated excellent work in the region over the past year, and include such leading names as Baker & McKenzie, Bär & Karrer, Bird & Bird, CMS Cameron McKenna, Herbert Smith Freehills, Hogan Lovells Latham & Watkins and Loyens & Loeff.

Facing the challenges of 2015

Partners and staff of the firm, together with their families, spent the weekend of 16 - 18 January at the Coral Beach Hotel and Resort in Paphos on a staff retreat. On Saturday our partners and staff participated in two workshops, facilitated by outside experts, preparing for the challenges that 2015 undoubtedly holds. The workshops were followed by a Gala Dinner on Saturday evening for partners, staff and their families. Sunday was set aside for relaxation and enjoying the sunshine, and everybody left feeling invigorated and ready to face the challenges of 2015 with confidence.

For further information please contact [Andreas Neocleous](#).

RECENT PUBLICATIONS

The following are a selection of our publications since the previous edition of this newsletter. They may be viewed by following the links below or by visiting the publications section of our website, which is constantly updated and contains a wealth of useful information on recent developments in Cyprus law.

- ≡ [Cyprus chapter of "International Securities Law and Regulation – second Edition"](#)
- ≡ [Cyprus chapter of "The International Comparative Legal Guide to: Franchise 2015 Edition"](#)
- ≡ [Cyprus chapter of "Getting the Deal Through - Restructuring and Insolvency"](#)
- ≡ [Cyprus chapter of "Global Legal Insights – Employment and Labour Law" - third edition"](#)
- ≡ [Cyprus chapter of "Public Procurement 2015"](#)
- ≡ [Cyprus chapter of "Shipping & International Trade Law" \(The European Lawyer Reference Series\)](#)
- ≡ ["The Implications of the Latest Russian De-Offshorization Proposals for Users of Cyprus Holding and Finance Structures "](#)
- ≡ ["Regulatory amendments consolidate Cyprus's attractiveness as an international business centre and trust jurisdiction"](#)
- ≡ [Cyprus chapter of "The Private Wealth and Private Client Review, third edition"](#)
- ≡ [Cyprus chapter of "Legal Aspects of Doing Business in Europe" - second edition](#)
- ≡ [Cyprus chapter of "International Secured Transactions"](#)
- ≡ [Cyprus chapter of "Encyclopedia of International Commercial Litigation"](#)
- ≡ [Cyprus chapter of "Manual For The Handling Of Applications For Patents, Designs And Trademarks Throughout The World"](#)
- ≡ [Cyprus chapter of "International Banking Law and Regulation"](#)
- ≡ ["The Implications for Cyprus Holding and Finance Structures of the Proposed Anti-Avoidance Amendments to the Parent-Subsidiary Directive"](#)
- ≡ ["Taxation of Cyprus international Trusts"](#)



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