

# CYPRUS FIDUCIARY ASSOCIATION

## 3rd Annual General Meeting

Hilton Park

16 June 2015

Speech by George Savvides, President

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Honourable Ministers,  
Distinguished guests,  
Dear colleagues,

### **Introduction**

It is with great pleasure that I am welcoming you to the third Annual General Meeting of the Cyprus Fiduciary Association!

Our first two AGMs, were held under very difficult conditions for the economy of our country, following the devastating events of March 2013.

I mentioned in my speech last year that we can not afford to let the international business community down again and that collective and decisive action is needed to restore confidence. Where are we a year on and more importantly where are we heading to? Before attempting to answer these questions, please allow me to summarise the operations of our Association over the last 12 months.

### **Cyprus Fiduciary Association**

The Cyprus Fiduciary Association has set very specific targets when established in 2011. Being the only organised body representing the fiduciary sector, the ultimate target was to be the catalyst for enabling the sector to raise its standards and advance its services. To raise the standards in terms of:

- the quality of service offered to international investors and professional intermediaries;
- adhering with tax, corporate and other laws and regulations;
- compliance with and implementation of, Know Your Client (KYC) and Anti-Money Laundering (AML) procedures;
- responding to calls for transparency and exchange of information;
- keeping abreast with international developments;
- promoting Cyprus and assist in developing new and enhanced offerings to the international business community.

In order for the Association to fulfil its targets, the representation of the maximum possible number of fiduciary providers is imperative. 2014 was a very productive year in this respect, with 30 new members joining the Association, representing a total increase of 79%. This had as a result, the decrease of the Annual Membership fee by 25% on a permanent basis, in line with the long-standing commitment by the Board of Directors. Today, the Cyprus Fiduciary Association has 71 member-firms, employing more than 1,200 professionals and representing around 40,000 client entities. The majority of our members are supervised by the Cyprus Securities & Exchange Commission, but there is a growing number of members regulated by the Institute of Certified Public Accountants and the Bar Association, distinguishing the Cyprus Fiduciary Association as the only professional body dealing exclusively with the fiduciary sector.

The Association assisted CySEC in the development of its Risk Based Supervision Framework that is used to assess the risk profile of Administrative Service Providers (ASPs). Through our feedback and comments we have helped the Commission make this model more effective in formulating the true risk profile of regulated entities. Our interaction with CySEC was not limited to this matter. We have frequent communication on issues related to the licensing, monitoring and training needs of the ASPs, as we are filtering through the various issues and queries of our members and other service providers, which are contacting us on a daily basis. We are thus doing our bit in reducing the, admittedly huge volume of communication CySEC has to deal with.

We have managed to establish closer cooperation and relationship with the Institute of Certified Public Accountants of Cyprus on issues related to the fiduciary sector. We have formed two common working groups to jointly work on establishing and promoting a level-playing field for all ASPs in Cyprus, and for assisting in the creation of a strategic plan for the sector, securing the contribution of all stakeholders. The working groups have met several times so far and the development of their deliberations will be communicated as their efforts progress.

The Association continues to provide the opportunity to its members for participation and contribution to the developments in the sector through its committees. Appointed in February 2015, the existing committees have set their Action Plans for the next two years, which were approved by the Board of Directors. The following are some of the major tasks currently assumed by our committees:

1. International Business:
  - a. Product development and service innovation
  - b. Establishing common ground with local bodies
  - c. Developing cooperation with related international associations
  
2. Tax & VAT
  - a. Following developments on the Base Erosion and Profit Shifting (BEPS) Project and assessing how they affect Cyprus
  - b. Assessing the tax obligations of trusts
  - c. Keeping members informed on tax developments

3. Legal and Corporate Affairs
  - a. Reviewing and commenting on new laws and regulations related to the sector
  - b. Upgrading our Policies and Procedures Manual
  - c. Representing the Association in working groups related to the Department of Registrar of Companies
  
4. AML & Compliance Affairs
  - a. Following-up and reporting on Foreign Account Tax Compliance Act (FATCA) developments
  - b. Comparing CySEC KYC requirements for ASPs to the respective provisions in the Netherlands, Luxembourg and Jersey
  
5. Professional Development
  - a. Development of seminars and other educational events in cooperation with the General Manager
  - b. Implementing the board's plans for the future development of qualifications for the professionals of the fiduciary sector

For the first time since its establishment, the Association prepared an annual Educational Plan for 2015, which was communicated to our members and other ASPs, but also to other organisations related to our sector, including accountants, lawyers and banks. The Board of Directors decided that the training and education offered should be specific and practical. To this end, the board identified the following three educational pillars under which seminars are categorised: a) AML & Compliance, b) Directorship & Trustee services, c) Corporate Administration. The targeted seminars, early planning and practical approach of trainings, have received a very positive feedback by sector professionals, securing high participation rates but also very positive evaluation comments. Our aim is to further enhance the quality of these seminars, utilising a network of expert instructors, providing hands-on training and covering all the knowledge needs of fiduciary professionals.

2014 was the year that marked the organisation of our very first big-scale conference. Entitled "Cyprus International Business Sector: They Way Forward" the event was delivered by high calibre and experienced presenters from Cyprus and abroad and managed to attract impressive participation in terms of number, background, profession and seniority of attendees. What has been really pioneering though was the outcome of the conference, the way this was utilised and its indented assessment process, which will be analysed later on.

As part of our effort to provide continuous assistance and information to our members, we have launched our new website a few weeks ago. The website is addressed to CFA members and all other stakeholders who have an interest in the fiduciary and the wider international business sector in Cyprus. Information about the Association and its members, educational events, the fiduciary sector and Cyprus as an international business centre is presented in a user-friendly and plain manner.

Finally, and as one of our main targets is to bring our Members closer together, we have established an annual social event to which we invite the top management of all our member firms for a gala dinner, during which they can exchange views and discuss issues of common interest.

## **Cyprus Economy – The Status Quo**

So, coming back to the question of where we are a year on, I would like to note the following.

### **1. Positive Developments**

Starting from the positive developments, the country has managed to keep on track with regards to the implementation of the Memorandum signed with its international lenders. This has been extensively recognised both by the lenders and by the international community in general and has produced tangible results. Among the positive outcomes are the improvement of many economic indicators and the upgrading of the creditworthiness ratings both of the country and the major local banks, which have subsequently made way for the successful return to the international markets both at a national and corporate level.

Furthermore, all restrictions to banking transactions, which used to be an open wound reminding what happened two years ago, were recently lifted.

The merger of the Inland Revenue Department with the VAT Authorities is reportedly advancing well, including the consolidation of the records of the two departments, which will hopefully lead not only to improved compliance but also to a better quality of service. Processing of advanced ruling requests, something which was a bottleneck for both administrations, seems to have progressed significantly.

For what concerns Double Tax Treaties, a necessary tool in the kit of any country involved with international business and investments, promising progress is noted for what concerns negotiations for conclusion of new agreements and amendment of existing ones.

The residency and citizenship schemes offered to third country nationals have proven a big success, with an amount exceeding EUR2bn. invested in Cyprus over the last couple of years as per the Ministry of Interior.

### **2. Negative Developments**

At the same time, one can not help but conclude that so far not enough has been done for the international business sector. This is disappointing considering the importance of the sector in terms of contribution to GDP, share of taxation income, number of people employed and other economic indicators. We should not forget that our international lenders identified the sector as one of the pillars on which our economy should be based for revival.

If we also consider the different international developments affecting the industry, such as the US FATCA, deoffshorisation in Russia, the BEPS Project and the Common Reporting Standard by the

OECD, the fourth EU AML Directive with its requirement for registries of Ultimate Beneficial Owners, substance-driven changes to the EU Parent-Subsidiary Directive, exchange of information on tax rulings between EU Member States, etc. then the absence of adequate action takes self-destructive proportions.

We stressed, during last year's AGM, the importance of showing that the country cares about international investors and is determined to enhance concepts such as ease of doing business and investor friendliness and protection. The following examples are definitely not what we had in mind when referring to such principles.

Starting with the latest developments at the Law Office of the Republic and leaving aside all other implications, this mockery is causing a huge blow on the international business sector, including delays in reviewing legislation aiming to enhance the position of our country as an international business centre.

Moving on and tiresome as we may have become, we can not stress enough the importance of coming up with a common regulatory regime for the fiduciary sector. Our opinion has been well grounded on many occasions in the past. Besides, I really doubt whether there is any well-intentioned person in our country who could argue otherwise.

The next one is a relatively fresh issue caused by the Insolvency Package of Laws. The impact, most probably unintended, on our sector is that closing a company will become a much more complicated and costly procedure. This is at a time that such an operation has become "trendy" not only because of the international developments but also due to the effort to improve the compliance ratings of our country in terms of tax and annual return obligations.

It is our view that members' voluntary liquidations, which is the method followed in the vast majority of closure cases for international business companies, should not be covered by this framework in the first place. Indeed directors and auditors confirm that such companies have the capacity to cover all their liabilities. We have communicated this position to the Ministers who are with us today, as well as to other interested parties, suggesting the exemption of such liquidations from the insolvency framework.

Moreover, the Registrar of Companies decided to request for the appointment of licensed liquidators, as from the date the law became effective, as if one could find a licensed professional right after the implementation of the legislation.

I cannot refrain from commenting also on the farce related to employing people by companies newly registered as employers. At a time when "substance" seems to be the only way forward in international business structuring, our Social Insurance Department, upon employing a person and requesting to register the company as an employer, seems to be frequently asking for registration of at least one of the Directors of a company as an employee retrospectively from incorporation. Besides all other implications such a "notional" employment creates, it can also result to significant penalties. We have been trying to get the formal opinion of the Director of the Social Insurance Department on the issue; after six months we are still waiting to receive a clear answer.

With regards to FATCA, the first reporting period is at the end of this month and we are still waiting for the Tax Department to issue the Guidance Notes.

Finally, despite all good efforts to digitalise the services at the Registrar of Companies, it seems that we still have a long way to go considering that, as per recent press reports, the whole project has another three years to go before completion.

The above issues - and there are many more - are mentioned with the best of intentions based on our experience, being on the front line in servicing foreign clients and investors. We believe they can be easily resolved, with good will and communication and a realisation from all stakeholders, including the public sector that we are on the same boat.

Overall, Cyprus is frequently cited as a success story by the international community for the way it has handled the economic collapse of 2013 and we should really not underestimate what has been achieved over the last two years.

### **Cyprus Economy - Way Forward**

So where are we heading to? Despite what has happened to our country over the last few years, the huge wave of international developments affecting the industry, the different actions undertaken by competing jurisdictions and so many other alarming factors, there are not many people who could argue that they have a clear idea of where Cyprus is heading to in the international business world.

The first step in answering the million-dollar question is to come up with something for which we, as an Association, have been bargaining since a long time; a plan! Based on that plan the targets will be set and the actions to be taken will be determined. Then, in what needs to be a continuous and evolving process, the country and its offerings must be appropriately promoted abroad.

Our Association kept the promise made during the previous AGM and has produced a well-structured proposed plan, through the conference organised in November of last year, as already mentioned.

In what has been a truly leading event for Cyprus standards, the plan was drafted and finalised by all participants, including the organisers, the speakers and, most importantly, the attendees, who got the chance to contribute twice, during the event and via subsequent email distribution of the draft. The plan was delivered to the Undersecretary to the President, with whom we will be staying in close communication, hoping that through this effort we will help towards the development of an official plan, which all stakeholders will endorse and work towards its implementation.

We intend to introduce another unique element to this initiative; accountability! A concept, which has been misunderstood, to say the least, in our country. By holding the conference on an annual basis we intend to evaluate the implementation of the plan in the most objective and transparent way. Through this process it will also be ensured that this remains relevant and up to date, in the light of local and international developments.

Summarising on the Way Forward, it is worth taking a glance at what some of our competing jurisdictions have been doing lately in terms of responding to international developments and investors needs and for praising their house.

- The BVI announced the establishment of a Financial Services Implementation Unit to drive the financial services sector in response to the challenges threatening the industry, including international regulatory pressures and growing competition.
- Gibraltar announced a complete overhaul of its legislation and regulation for financial and professional services.
- Identity Malta is an authority which was set-up by the local government to handle all aspects of immigration.
- Luxembourg has appointed a secretary of state to be in charge of national branding.
- The Isle of Man has created a new position of Business Development Manager - High Net Worth Individuals, to promote the island's tax incentives for affluent persons.

## **Conclusion**

Closing, our main concern, during these critical times, can be summarised in one word: “relevance”. How our country can continue being relevant in the new era of international business. The changes taking place apply to all international business centres and not just to Cyprus. The simplicity and flexibility of the legal and tax regime of our country as well as the adaptability of its people, place it in a favourable position in adjusting to the new environment. This creates both the hope and the expectation that, by having a plan and also by leaving self-distracting behaviours well behind, we will not only be able to adjust but to convert international developments in to a great competitive advantage.

To that respect we extend our hand to every person who is involved in this sector and who cares about its future. We need to work together, we need to fully realise and accept the changing landscape and we need to find the ways to have a place and indeed a prominent one in it.

I would like to thank every one for supporting the Association and especially our Members for believing in what we do and where we aim at, and are joining forces with us in order to make the effort as strong as possible.

Last year I closed my speech noting that we had started seeing light at the end of the tunnel. We are slowly but steadily heading towards that end. What is important now that we are getting out of the dark is to take action. It has become a cliché that every hardship has a hidden opportunity, but we should not forget that “even when opportunity knocks, a man still has to get up off his seat and open the door”.

Thank you!