Cyprus Investors’ Summit 2015: a great success

By Mr. Christodoulos Angastiniotis
Chairman, Cyprus Investment Promotion Agency

The Cyprus Investors Summit 2015, organised by the Cyprus Investment Promotion Agency (CIPA) in Limassol on February 9-10, concluded to great success.

The holding of the Summit in Cyprus was of paramount significance, given the number of investment funds participating, the countries of origin of the investors and particularly the quality of the institutional investors CIPA, with the valuable assistance of the Cyprus Investment Funds Association (CIFA), managed to bring to Cyprus.

Allow me to express my sincere appreciation to CIFA for the excellent cooperation, communication and support in the organization of the Summit. We are pleased to note that our cooperation is always fruitful.

The timing the Summit took place was also very important, as it coincided with a return to economic stability and the restoration of the credibility of the Cyprus economy.

During the Summit, 18 large private sector development projects were presented to leading officials from some 40 world-ranking investment funds, companies, banks and other international organisations. Cypriot businessmen were given the opportunity to showcase their projects, hold direct contacts with foreign investors and arrange on-site visits to the actual projects.

Foreign investors expressed their satisfaction with CIPA’s excellent organisation of the Summit and its initiative to host, together with the government, such a high level meeting. Most important, they voiced their certainty that the economy of Cyprus is on the right track and their belief that the country’s many comparative advantages make it attractive to foreign investors.

Indeed, Cyprus - an EU member state with 55 double tax treaties in force, a highly qualified and professional workforce, a fully harmonized tax and legal system, one of the lowest and most competitive corporate tax rates in Europe at 12.5%, as well as with a highly developed infrastructure, enviable quality of life combined with fabulous weather, beautiful nature, art and culture, safety, security, and above all, hospitable people - is a highly competitive centre for international business.

CIPA remains focused on its mission to promote Cyprus as an attractive investment destination. And
the organisation of this Summit contributed significantly in this direction, as it brought Cypriot businessmen in direct contact with world ranking institutional investors. The contacts of the institutional investors with Cypriot businessmen showed there is room for deals to be reached in the near future. There appears to be serious interest and we hope that it will lead to concrete results.

At CIPA, we insist that attracting foreign investment is not just a basic pillar in efforts to return to growth, but perhaps the only realistic way of achieving this goal. The implementation of large development projects, particularly, is expected to act as a catalyst to the common effort to restart the economy, bringing multiple benefits, such as new jobs, the influx of revenue to state coffers, the absorption of expertise and growth more generally.

Besides large development projects, new sectors of economic activity are also emerging. The energy sector is a strategically important multi-billion prospect, not only through the discovery of offshore natural gas, but also through renewable energy, especially solar energy. Promising opportunities for growth also exist across many other sectors, such as shipping, tourism, education, health, research and innovation. The gaming industry will also be opened up and will include, among others, an integrated casino resort for which investor interest is already being registered.

We need to realise that the upgrading of our business friendly environment, should be a continuous process. Changing our growth model, improving the business and investment environment, and dealing with bureaucracy are the major challenges that we need to overcome over the incoming months. We need a growth model free of the distortions and imbalances of the past, based on much more solid foundations and the creation of conditions for sustainable growth. We will only succeed if we remain focused and if efforts to implement the economic reform and modernisation programme in our country are taken seriously.

Closing, I would like to once again thank everyone involved in making this very first Cyprus Investors Summit a success. The presence of the political leadership, prominent businessmen and other officials, proved our determination to move forward. It stands as a testimony to the value that we attach, as a society, to promoting investment, innovation and entrepreneurship in Cyprus.

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The importance of investor education and CIFA’s role in promoting this objective in Cyprus*

By Mr. Angelos M. Gregoriades, BSc, FCA
President of CIFA

Effective investor education will provide comprehensible explanations of products and practices to investors, thus enabling them to evaluate potential investment decisions and even identify probable fraudulent activities. Bearing in mind that the sector of investment funds is one of the fastest growing sectors in the Cyprus financial services industry, it is crucial that Cyprus also monitors and follows international developments, in order to ensure the highest possible levels of investor protection.

Investor education as a global objective

The promotion and development of investor education is one of the objectives of the International Organization of Securities Commissions (“IOSCO”), the global standard setter for securities regulation. Since 2001, IOSCO was one of the first to recognize the importance and role, as well as address the limitations, of investor education via various initiatives. Most importantly, in 2013 the IOSCO Investor Education Gateway, an online tool aiming to enhance the sharing of investor education information among IOSCO members and the public, was launched. The information contains online investor education
materials from forty-one of IOSCO’s members, as well as published IOSCO reports and presentations regarding investor education. Its main goal is to enhance the sharing of various ideas and initiatives about investor education. Cyprus’ absence from the Gateway signals that a lot needs to be done domestically in order to become part of the global efforts to promote this objective.

In addition to IOSCO other international bodies taking such initiatives include:

- The European Securities and Markets Authority’s (“ESMA”) Investor Protection and Intermediaries Standing Committee undertakes ESMA’s work on issues relating to the provision of investment services and activities by investment firms and credit institutions with particular regard being placed on investor protection, including the conduct of business rules, distribution of investment products, investment advice and suitability;

- The European Funds and Asset Management Association’s (“EFAMA”) recent report on “Building Blocks for Industry Driven Investor Education Initiatives” is a selection of independent expert analysis, confirming widespread ignorance of financial matters in Europe and highlighting that this is an issue concerning all stakeholders involved, ranging from regulators, national associations and members of the industry such as bankers, as well as European and other international bodies.

**The role of CIFA in promoting investor education**

The Cyprus Securities and Exchange Commission (“CySEC”) – being the regulatory body responsible for the supervision of investment funds and asset management firms operating in Cyprus – is a member of IOSCO, however, it does not yet participate in the Investor Education Gateway. Although the primary role in most jurisdictions is taken by the regulatory authorities, the success of the measures to be adopted also depends on the appropriate involvement of all stakeholders of the sector, including national associations. CIFA is an important stakeholder and one of its main objectives is to protect investors in the investment funds sector and also support the development of the Cyprus investment funds industry.

One important component to achieve high level investor protection is via the formulation of a comprehensive strategy on investor education. Subsequently, Cyprus can be more actively involved in the Investor Education Gateway. As IOSCO Objectives and Principles of Securities Regulation states, regulators should play an active role in the education of investors. This however, does not exclude CIFA from being part of the formulation of this strategy, in close cooperation with CySEC.

In particular, CIFA’s Training and Human Resource Committee, which is comprised of experts in the field, is well-equipped to promote the objective of investor education. Its mandate includes the organising of training, in collaboration with regulatory authorities. The main aim will be to set up an all-encompassing investor education programme that will enable investors to ask questions and have the necessary tools to assess both the investments and the professionals in the field. More specifically, this Committee can identify training gaps and needs for investment fund professionals in Cyprus and subsequently promote the development and organisation of training programmes. It can also monitor and share information on the training developments on an international as well as a European level, and make recommendations on the training required for the various professional groups in Cyprus. Moreover, CIFA and its members can support research initiatives, as there is still considerable work and research to be done in relation to this topic.

One important step will be to define the desired target groups for Cyprus, as different groups demand carefully designed investor education initiatives that will be adapted accordingly to satisfy varying levels of knowledge. These groups may range from existing investors in order to assist them in managing their investments, through to adults that need to improve their personal financial planning. Also, investor education may also target young people aiming to develop their understanding of key financial concepts and, hence, their competence to manage their personal finances.

There are numerous challenges to be addressed in this field and the quest for best practices will be an ongoing one, so as to achieve the overall objective of educating investors in order for them to invest with confidence. Therefore, best practices will keep
developing, new methods will be presented and new challenges will be arising. This is why research is key in developing our understating of investor education and it should be a permanent objective for the stakeholders involved. This will contribute to addressing the real limitations of investor education and managing expectations with respect to what investor education can accomplish, whereas appropriate training programmes will play an important role in order to effectively address information asymmetries.

*This is a condensed version of an article from the same author, published in Standards Magazine (www.CyStandards.com). The complete article may be found in Standards Magazine’s March 2015, Issue 4.

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Development of Cyprus into an attractive jurisdiction for the domiciliation and management of Investment Funds - focus on MENA region

By Mr. Marios Tannousis
Member of the Board of CIFA, Secretary

The importance of promoting Cyprus in key strategic markets with proximity to it can be said in the case of the Middle East, North Africa, otherwise known as MENA region. Cyprus clearly possesses comparative advantages versus other EU jurisdictions and has all the ingredients to be considered as a gateway for investment outflows from the MENA region to Europe, as well as other high growth markets such as Russia and China.

Recent discussions and meetings with prospective investors, stakeholders and experts as well as practitioners of the industry confirm that this is possible, and present an opportunity for Cyprus which through an all-geared approach can be capitalized upon.

The main reasons for this are outlined below:

1. Cyprus has transposed all the relative EU directives for investment funds such as UCITS IV and AIFMD and has also a new Alternative Investment Funds (“AIF”) law to accommodate such collective investment schemes;
2. Cyprus has now a single regulator for investment funds which is the Cyprus Securities and Exchange Commission;
3. The proximity to Cyprus to the MENA region makes the use of the Cyprus investment funds platform an attractive option for investors, funds and asset managers;
4. The already excellent business and investment ties between Cyprus and the countries in the MENA region;
5. The existing and increasing network of over 55 Double Tax Treaties that Cyprus has with other countries globally;
6. The sound legal system which is based on the UK Common law;
7. The competitive tax system.

Diagram 1. – A Cyprus domiciled international fund
Cyprus’ practical solutions for MENA Investors / Investment Funds/ Asset Managers

Cyprus can be an option for MENA investments, investment funds and asset management companies that want to invest through:
1. UCITS investment funds;
2. Alternative Investment Funds;
3. PE/VC Investments in different sectors such as Energy, Banking & Financial Services, Shipping, Real Estate Projects, ICT, Education, R&D (see diagram 2);
4. The setup of an investment firm or asset management company.

Diagram 2 – An example of a Private Equity Fund investing across economic sectors

The road ahead

In addition to all of the above, it is also important to further enhance the legal and regulatory framework that needs to be continuously internationally benchmarked and best practices implemented. These factors are of paramount importance for any economic sector to develop in a country that is seeking to attract foreign investment. It is for this reason that both CIFA and the Cyprus Investment Promotion Agency (“CIPA”) are working in tandem diligently in this direction: CIFA as the voice of the investment funds industry of Cyprus and CIPA as the overall promotional voice of the country across priority economic sectors.

CIFA, fully operating with the support of CIPA, its Technical Committees, the Regulator, the Ministry of Finance, the Government, as well as the private sector are proceeding with the main issues of concern. All the above are important for the promotion of Cyprus as an attractive funds jurisdiction.

Moreover, Cypriot professionals together with the right bodies must attend, present and participate in global industry events of international repute, be visible and explain the advantages of Cyprus as a good option for the domiciliation and management of investment funds.

In an effort to provide tools for the promotion and marketing of Cyprus as a funds jurisdiction abroad, CIFA has, in collaboration with CIPA and other valued partners, published the following brochures and useful promotional materials which may be downloaded from the CIPA and CIFA websites:
2. Tax Guide for Investors
3. Cyprus Funds Industry: A gateway to the European Union and other growth markets
4. About CIFA

Another important benefit to the economy of the CIPA-CIFA synergy is the fact that investment funds domiciled and/or managed through Cyprus, can at the same time be approached to consider investing in Cyprus investment projects (private or public).

A recent strong example of this synergy is the Cyprus Investor Summit, which took place in February in Limassol and the Chairman of CIPA has written about it in this edition of the CIFA Newsletter.

Cyprus’ investment funds industry now meets the international and well known marketing success mix criteria of Product, Price, Place, Promotion, and with an all-gearied approach for further enhancement and promotion of the investment environment, more success can be achieved.

Mr. Marios Tannousis holds the post of Senior Investment Promotion Officer at the Cyprus Investment Promotion Agency. He has twenty years of international corporate experience, with twelve years in the international banking and financial services group Societe Generale, where he served at various key posts.
He is a member of the board of various organizations and bodies and also served as President of the Cyprus Finance & Leasing Association. He holds a Bachelor’s degree in Economics and an MBA. He is also certified for offering investment services and has a special interest in Banking & Financial Services including Investment Funds.

Robust risk management framework - a fundamental tool for proper investment conduct

By Mr. Andreas Theophanous, BSc (Hons), MSc, ACA
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Today’s turbulent business and economic environment demonstrates the importance of having in place an effective and robust risk management framework. Irrespective of the type of fund you manage, all funds incur risks as a part of doing their investment activities, and proper risk management is paramount to a successful investment conduct. Regulators are placing increased emphasis on risk management processes, and while traditionally risk management was defined and expanded only in the context of the respective UCITS directives, we now see regulators introducing the concept of risk management to AIFs, as part of the overall responsibility of the investment manager.

However, how in practice do investment funds organize their risk management processes to address the risks they face? Traditionally, risk management was responsibility of the risk officer, and due to the sophistication of the process, it was merely seen as a compliance function. New regulations aim to narrow the gap between risk management and risk compliance, so that the process becomes more efficient and effective, and adds real value to activities of investment funds. Boards of Directors are to build on these regulations and enforce cultures within their investment funds, in which the management of risks is everyone’s responsibility, and the scope of risk management is expanded across all levels of an investment fund. A backbone for such culture is the development of a risk management framework, proportionate to the nature, scale and complexity of the activities of each fund.

The key principles of a risk management framework are described below. Although these are primarily relevant to UCITS, they can also be adopted, in their entirety or to a lower scale, to AIFs as well, depending on the nature and complexity of the AIF.

(a) Organization and governance of the process:

A fundamental element of a risk management framework is the process through which the Board of Directors identifies, measures and manages risks. Such process defines the principles and methods for the identification of risks, sets the level of interaction between various operating units, and defines the reporting arrangements to the Board of Directors.

(b) Identification and measurement of risks relevant to fund products:

An effective risk management process defines also the quantitative and qualitative measurement techniques through which all possible risks that an investment fund may face are identified, measured and assessed. The employed measurement techniques are not static, but revised regularly to reflect changes in market conditions.

(c) Management of risks relevant to the funds managed:

Once risks are identified and assessed, the process should define the mechanisms through which these are managed, including the adoption of corrective measures in cases of deficiencies, so that the overall risk profile remains consistent with that initially approved by the fund’s investors.

(d) Monitoring and reporting:

The Board of Directors has ultimate responsibility for the effectiveness and appropriateness of the process, and should review this on an ongoing basis. To this effect, the process must define the reporting channels through which the Board of Directors receives periodic reporting from risk management
functions concerning the adequacy and effectiveness of the process, any deficiencies identified and recommendations, including progress status of their implementation.

The above principles are usually implemented as part of a complete set of rules that govern the risk management process, usually referred to as the risk management policy. Proper documentation of such policy allows Boards of Directors to ensure that their investment funds operate in an environment of full risk awareness, and that risk considerations are appropriately taken into account in the decision-making process.

In most cases, risk management functions are being outsourced to third parties. Outsourcing risk management, except from economies of scale, achieves independence of the function, and an unbiased assessment of the risk processes and controls. However, this does not preclude the Board of Directors from their responsibility to be involved in the risk management process of the funds they manage on an ongoing basis, review the effectiveness and appropriateness of the function, and assess the competencies of the third party to carry out this role, thus ensuring this is not impaired from being outsourced. Internal auditors can assist Boards in this respect, by including in their internal audit plans, those tests of processes and controls necessary to assess the appropriateness and effectiveness of risk management functions.

In conclusion, the Board of Directors of an investment fund is the governing body that sets the landscape through which risk management functions interact with various operating units, to identify and escalate risk issues and control gaps. Thus, risk management functions should be seen as the tool through which the Board of Directors receives advice with respect to the identification of risks, and the adequacy and effectiveness of the measures, policies and procedures in place to detect risks. Regulators through the various directives and other requirements provide the infrastructure to be utilized by the Board of Directors for the establishment of efficient and effective risk management processes.

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