

Cyprus

Chamber of commerce:

Cyprus Chamber of Commerce and Industry
38 Grivas Dhigenis Ave/ 3 Deligiorgis St
PO Box 21455
1509 Nicosia
Cyprus
Tel: +357 2 288 9800
Fax: +357 2 266 9048
Email: chamber@ccci.org.cy
Web: www.ccci.gov.cy

Professional body:

Cyprus Bar Association
Florinis 11, office 101
1065 Nicosia
PO Box 21446
1508 Nicosia
Cyprus
Tel: +357 2 287 3300
Fax: +357 2 287 3013
Email: cybar@cytanet.com.cy
Web: www.cyprusbarassociation.org

New laws continue to be introduced

Elias Neocleous and Stephanos Evangelides
Andreas Neocleous
Limassol

Following the watershed represented by the adoption of the euro in January 2008 and the election of a new government shortly afterwards, one might have expected a legislative pause. On the contrary, the government has continued to introduce new laws in order to transpose EC Directives into domestic legislation, and to enhance Cyprus's competitiveness as an international financial centre.

Conversion of share capital to euro

The Euro Adoption Law of 2007 requires all Cyprus-registered companies to pass a resolution to redenominate the company's capital at a general meeting, and to register the resolution with the Registrar of Companies.

These requirements caused considerable delays and the government announced that, notwithstanding the provisions of the Euro Adoption Law, only public limited companies will continue to be required to pass and register a resolution to redenominate their share capital. Private companies will not be obliged to follow the procedure set out in the Euro Adoption Law, but may do so if they wish.

Amendment of the assessment and collection of taxes law

Cyprus is intent on meeting its obligations regarding information exchange and transparency, and passed a new law in 2008 amending the Assessment and Collection of Taxes Law to incorporate the exchange of information provisions of Article 26 of the OECD Model Tax Convention of 2005 in double taxation agreements that have been concluded between Cyprus and other jurisdictions.

Under the new law, at the request of a contracting state the Cyprus tax authorities may obtain and pass on to the contracting state information relating to any person or company. The authorities may also inspect any books, records and other documents, data or information, regardless of any other legislative provisions of secrecy including bank or professional secrecy laws that include provisions for the maintenance of client confidentiality and data protection.

The law contains the following important safeguards.

- Information may be provided only to contracting states that are under a reciprocal obligation to disclose information.
- The prior written consent of the Attorney General of Cyprus is required for the tax authorities to exercise their powers to collect the information requested.
- The right to legal professional privilege is maintained, and any information passing between professional legal advisers and their clients may not be disclosed to third parties.

Increased scope of tax exemption for reorganisations

Reorganisations legislation was introduced into Cyprus tax law in 2003 to align it with the EU Mergers Directive. Any profits or gains resulting from transactions effecting a qualifying reorganisation are exempt from income tax, capital gains tax and stamp duty. Furthermore, if the reorganisation involves the liquidation of a company, there is no liability to special defence contribution tax under the deemed dividend provisions. Land transfers within a reorganisation are exempt from land transfer fees.

Law 80(I) of 2007 amended the reorganisations legislation to align it with the updated EU Mergers Directive of February 17 2005 introducing the concept of partial division or demerger and an extended exchange of shares provision.

In December 2008 the Inland Revenue Department issued a long-awaited circular clarifying the definition of security qualifying for exemption. The circular defines security much more widely than in the past, so considerably expanding the range of financial instruments that can be disposed of without any tax implications in Cyprus, and further enhancing the role of Cyprus in international finance and holding structures.

Removal from Spanish tax blacklist

A Spanish legislative change has finally secured the removal of Cyprus from the Spanish tax authorities' blacklist of tax havens, which denied Cyprus-resident companies the benefit of concessions and exemptions under Spanish law, even though Cyprus complied with all relevant information exchange requirements. This anomaly has now been resolved by Law 4/2008, passed by the Spanish parliament in December 2008. The previously unavailable tax benefits and exemptions are now available to companies that are tax resident in Cyprus with effect from the beginning of 2008.

Financial services legislation

Further to the implementation of Mifid in 2007, Cyprus has amended the insurance and banking laws and regulations to include the new re-insurance and capital requirements directives.

Furthermore, Cyprus has recently adopted both Directive 2001/107/EC and Directive 2001/108/EC (the product and management directives) in relation to undertakings of collective investments in transferable securities (UCITS) extending the scope of eligible investments by UCITS and providing for the passporting of the activities of management companies licensed by the Cyprus Securities and Exchange Commission.

Regulation of fiduciaries

In order to bring standards into line with international best practice and to root out unregulated service providers, a draft Regulation of Fiduciaries, Administration Businesses and Company Directors Law was issued for consultation in 2006. A revised draft bill was published in 2008 and is expected to enter into force in 2009, ensuring that all service providers in Cyprus adopt stringent minimum standards.

Further legislation

The Acquisitions Directive and the Payment Services Directive are to be transposed into domestic legislation during 2009.

Implementation of the Acquisitions Directive will improve the process of supervisory approvals for acquisitions of investment firms, banks and insurance undertakings by increasing legal certainty, clarity and transparency, so facilitating domestic and cross-border acquisition activity. In addition to improving consumer protection, implementation of the Payment Services Directive will increase choice by establishing a regime for new payment institutions.

Finally, Cyprus is to enact a law regulating leasing, including financial leasing and factoring activities. The draft law is expected to be reviewed by parliament during 2009.

The developments of the past year have continued to improve Cyprus's attractiveness as an international financial centre. Cyprus is included in the OECD's white list of countries that have substantially implemented internationally-agreed tax standards, and in a recent survey of tax professionals Cyprus emerged as the most attractive tax regime in Europe on account of its combination of consistency in interpreting tax legislation, stability in resisting frequent changes to tax laws, and comparatively low tax rate.

Financial and corporate

Recommended firms

Tier 1

Andreas Neocleous & Co
Antis Triantafyllides & Sons

Tier 2

Chrysses Demetriades & Co

Tier 3

Chryssafinis & Polyviou
Dr K Chrysostomides & Co
Georgiades & Pelides
L Papaphilippou & Co
Montanios & Montanios

Tier 4

Aristodemou Loizides Yiolitis
George L Savvides & Co
Tassos Papadopoulos & Associates

2009 was never going to be a good year for law firms, anywhere. And although Cyprus's exposure to the downturn has been mild, previous years have been so luxuriant for the legal profession that things seem a lot worse.

"We had some very good years previously," says one partner at a leading firm. "There was too much work and not enough competent people to do it. In the last months we have been seeing a shake-up. M&A is not dead but almost dead, new business is scarce and the traditional work of starting up new companies has dried up."

But it has not been all bad news. In April 2009 Cyprus and Russia signed a protocol amending the double tax treaty between the two countries – a good indication that Cyprus will remain the primary country for cross-border investments into Russia.

And it's not just with Russia that Cyprus courts lucrative relationships. "Because we are members of the EU and the eurozone, and offer tax incentives, this makes us quite attractive to companies in the Middle East, and now China," says one partner.

The downturn has also brought an increase in strategic M&A – companies merging internal structures to reduce costs, and cross-border deals where European companies seek a merger to become tax-resident in Cyprus.

Incorporation work, however, has been hit hard, with a more than 40% drop in the number of company registrations.

Banking work has also seen a noticeable reduction. "There has definitely been a slow-down in banking," says one partner. "If someone says anything different then they must be from another planet. Now, banks are not willing to lend, they are willing to sort out their

balance sheets. But there is quite a lot of restructuring."

Although they are cautious, Cyprus's banks remain healthy. "They weren't sophisticated enough to run after the derivatives market and our central bank did not encourage our banks to invest in these," explains one partner.

Andreas Neocleous & Co

Andreas Neocleous & Co is the largest and most internationally focused firm in Cyprus, capable of handling numerous demanding mandates at a time. In November 2008 Andreas Neocleous & Co moved to a new office in Limassol, building on its reputation as one of the best-equipped firms in the jurisdiction.

"They are responsive and down to earth," says one client. "They know how to structure cross-border transactions and they know the needs of Russian clients ... how Russian [inbound and outbound] business works. They are quite helpful in handling matters."

Kyriacos Georgiades is often singled out for praise by clients. "He takes a very practical approach to legal problems and is able to give very balanced advice in light of the facts," says one client, adding: "And that's certainly appreciated, not being a Cypriot lawyer. Seeking help, one appreciates being able to get quick answers that are not half-answers. He was responsive and available for conference calls when needed and the documentation that the firm produced was always of a good standard."

Georgiades is advising MDM SE, which is the majority shareholder of the bank created from a merger between Russian banks MDM Bank and Ursa Bank. As well as advising on the merger itself, the firm is advising MDM SE on the subsequent restructuring of the merged bank's ownership structure. Freshfields Bruckhaus Deringer and White & Case are also involved in the merger and restructuring, valued at €13.4 billion.

In December 2008 Elias Neocleous, the firm's other leading lawyer, led the team acting as Cyprus legal counsel for Société Générale as security agent on a €276 million credit facility. The facility was arranged by Société Générale and BNP Paribas and provided to Brunswick Rail Leasing, a Russian-registered company that acquires railcars and leases them to large industrial and transport companies.

And Neocleous and Georgiades worked together on one of the firm's largest-value transactions, advising 3i investments on Cyprus law aspects of capital and loan contributions to a Scottish limited partnership through a Cyprus entity in a deal worth €1.4 billion. The transaction closed in August

2008, with Berwin Leighton Paisner advising on the English law aspects of the deal.

Leading lawyers

Kyriacos Georgiades
Elias Neocleous

Antis Triantafyllides & Sons

Antis Triantafyllides & Sons is a family firm long established in Cyprus, but with strong capabilities in international finance. And though the firm lacks the size of Andreas Neocleous & Co and Chrysses Demetriades & Co, rivals say that the quality of the work undertaken by the firm puts it on a top-tier ranking.

"Antis Triantafyllides should be in tier one," says a competitor. "They are in the largest transactions in corporate and financial [work]."

"Antis Triantafyllides, along with Chryssafinis & Polyviou, is the best in terms of quality," says another competitor. "I feel they are good in corporate sectors – they know what they are doing and I have never had any problems with their opinions regarding advice."

Stelios Triantafyllides is widely acknowledged as the firm's standout practitioner. "He is the leading lawyer in the firm for financial and corporate," says one commentator.

Leading lawyers

Stelios Triantafyllides

Chrysses Demetriades & Co

Chrysses Demetriades & Co is the only firm in Cyprus that can rival Andreas Neocleous & Co in size and organisation. The practice has a large number of international clients and a plethora of talented lawyers.

"Chrysses Demetriades has the largest number of substantially good lawyers. They are a very good firm," says one competitor.

Consultant Thomas Keane and head of corporate and commercial Christos Mavrellis are both lauded as the firm's leading individuals. Keane is described by a client as possessing "sound technical ability", while a competitor says of Mavrellis: "He is one of the best lawyers in Cyprus, no doubt about that. He has been practising for a long time."

Leading lawyers

Chris Georgiades
Christos Mavrellis

Other ranked firms

Dr K Chrysostomides & Co strengthened its practice after recruiting George Ioannou from

PricewaterhouseCoopers in August 2008 and welcoming back founding partner Dr Kypros Chrysostomides in December 2008. Dr Chrysostomides had been serving as a minister for the Cyprus government.

Dr K Chrysostomides & Co is the only Cyprus member of Lex Mundi and World Services Group, through which it receives a large portion of mandates. The firm, though small, has a strong financial and corporate practice, particularly in M&A where partner Anna Rossides is singled out for praise.

"We met when preparing the biggest telecoms transaction Austria has ever done," says one client of Rossides. "We needed one lawyer who could align with lawyers in other jurisdictions. So we didn't just need advice on Cyprus law, we also needed someone who could work with other lawyers. Also, we needed a lawyer who would be available on short-term notice and didn't need a long time to prepare. This is what we got with her. We are very happy with her – she is not a lawyer who hesitates."

Senior associate Elena Ioannides advised on one of the firm's standout deals of 2008, acting for BNP Paribas and Société Générale in the provision of a pre-export syndicated loan facility to steel producer Novolipetsk Steel. The transaction closed in the third quarter of 2008 with a value of €1.1 billion. Lovells' London and Moscow offices were also involved.

Aristodemou Loizides Yiolitis is a three-year-old niche firm focused on banking, corporate and tax work. The firm does mainly mid-market transactions according to commentators, though the drive and competence of the firm's ten-lawyer team is sufficiently impressive to warrant a ranking.

"Aristodemou is a good young firm, working hard and very serious about their work," says one competitor: "They have some good people and they are up-and-coming."

"I was quite impressed," says a magic circle client. "It's such a small jurisdiction and they were a very good, comprehensive firm. It was in the context of a Ukraine transaction, and the firm was responsive and available at all sorts of weird times. Nancy Charalambous was representative of the firm – very responsive and very accommodating to clients' requests."

Along with Pavlos Aristodemou, Nancy Charalambous advised on a €36 million facility granted as a refinancing by Raiffeisen and UniCredit to Rosinter Restaurants. The firm acted for the lenders in the deal, which took place in December 2008.

In the same month Aristodemou and Charalambous also worked together on the cross-border merger between Songa Offshore in Norway and Songa Offshore Cyprus, and

the formation of a European company, Songa Offshore SE. The firm acted as lead Cyprus counsel to Songa.

Other notable firms

Ioannides Demetriou is a full-service firm, strong in finance work. The practice has offices in Limassol and Nicosia, and its two founding partners are well regarded in the market. "Senior partners Pambos Ioannides and Andrew Demetriou are both very good in academic and practical terms, and have considerable experience," says one client. "I also know most of the other lawyers in the firm and they are all good professionals. I'm very pleased with the work the firm does for us and the advice we are getting; we continue to use them and recommend them."

Ioannides advised on the €80 million merger between listed companies Laiki Investment and CLR Capital, which control a substantial part of investment services in Cyprus.

Patrikios Pavlou & Co has a reputation as a litigation firm, but after advising on some high-value deals, the firm's corporate and finance practice is beginning to garner recognition from clients and competitors.

"I thought their approach was pretty good. I got a better sense that they were properly connected into the transaction and what the client wanted," says one London client who uses the firm for financing and M&A work. "They knew where the commercial issues were and they were very responsive in terms of explaining the market in Cyprus to us."

The same client also praises the firm's managing partner and head of corporate and commercial Stavros Pavlou. "He came across as very straightforward and very knowledgeable, not just about the law but also other law firms – he recognised other firms' strengths as opposed to just saying his firm was the best."

Pavlou is also co-head of the firm's banking, finance, capital markets and securities department, along with Lia Iordanou Theodoulou. The two partners worked together on one of the firm's deal highlights of 2009, advising Gazprombank on the provision of facilities to a Cyprus company – secured by a share pledge agreement with a value of \$1.1 billion.