

# Cyprus

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## Recent developments in Cypriot finance legislation

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2007 has seen a number of significant developments in the laws governing financial activities in the Republic of Cyprus. When Cyprus joined the EU on May 1 2004, the government undertook to join the Economic and Monetary Union and to adopt the euro as soon as the Maastricht convergence conditions were fulfilled. Cyprus has now submitted its formal application to join the Eurozone with effect from January 1 2008 and has taken steps to put in place the necessary legislative framework. The government is also continuing to introduce new laws in other areas to align domestic legislation with recent EC directives.

### The adoption of the Euro Law of 2007

Cyprus's adoption of the Euro Law on March 15 2007 was a significant step towards joining the single currency. The Euro Law is intended to enable the technical preparation of both the public and private sectors and to provide information to the public, all of which are essential to achieve a smooth and successful transition from the Cyprus pound to the euro on the planned changeover date of January 1 2008.

The new law provides the legislative framework for converting Cyprus pounds into euros, including the detailed conversion process, dual pricing, dual circulation and measures to combat profiteering. It includes provisions for the conversion of limited liability companies' and cooperative societies' share capital, the period of dual circulation and dual display of prices, the conversion of account balances denominated in Cyprus pounds, the redenomination of private corporate debt and public debt, and the exchange of bank notes

and coins by commercial banks and the Central Bank of Cyprus.

### The Markets in Financial Instruments Directive (Mifid)

Directive 2004/39/EC of the European Parliament and of the Council on Markets in Financial Instruments, and Directive 2000/12/EC of the European Parliament establish a comprehensive regulatory framework for executing transactions on behalf of investors in stock markets, alternative trading systems and investment firms. As part of the process, a single passport for investment firms, banks and stock markets has been created which enables such institutions to offer their services on a cross-border basis throughout Europe on the strength of home-country authorizations, granted according to uniform criteria in all EU member states.

Mifid obliges member states to harmonize local legislation to achieve its main objectives, which are the protection of investors and consumers of investment services, the development of a single market in investment services across the EU, the protection of market integrity and the promotion of fair and transparent integrated financial markets.

National legislation implementing Mifid is under consideration by the Cyprus House of Representatives and is expected to be adopted by November 1 2007. The draft legislation also incorporates other EC Directives including Directives 2006/73/EC concerning the Organizational Requirements and Operating Conditions for Investment Firms and 2006/48/EC on the Taking and Pursuit of the Business of Credit Institutions. When passed, the new law will replace the existing Investment Firms Law of 2002.

### The financial ombudsman

Further to the commission's recommendation 98/257EC on the principles for bodies responsible for settling consumer disputes out of court, a draft law to establish a financial

ombudsman is under review by the House of Representatives. The draft law is expected to provide the legal framework for an efficient complaints procedure and a streamlined mechanism that will enable the transparent and expeditious handling of complaints in the financial services sector.

The scope of the service as provided for in the draft law will be resolving consumers' complaints against financial service providers, and providing an efficient, equitable and impartial out-of-court procedure for dispute resolution in the sector. The financial ombudsman will be responsible for investigating complaints against banks, investment firms and insurance companies, among others. The draft law also provides the financial ombudsman with the power to refer a case to the relevant supervising authority for examination if it involves a matter in the public interest or a breach of the Banking Laws, the Insurance Services Law or any legislation in force for investment firms.

### The Law on Public Takeovers

The government transposed the European Takeover Bids Directive (Directive 2004/25/EC) into domestic law in April 2007.

The new Law on Public Takeovers applies to public takeover bids for companies whose registered office is in the Republic of Cyprus and which are admitted to trade on a locally regulated market. Some of its provisions will also apply to companies whose registered office is outside Cyprus, provided they meet certain conditions.

A key feature of the new law is a set of general principles governing public takeover bids, such as the equal treatment and protection of shareholders. The law sets out the procedures to be followed before and after the announcement of the public takeover bid, the mechanics of a public takeover bid (such as the way information will be disseminated), restrictions on the offeror company after the announce-

ment of the bid and the circumstances under which it can revoke the initial public takeover bid. The law also includes new squeeze-out and sell-out provisions.

## Financial and corporate

Recommended firms
<b>Tier 1</b> Andreas Neocleous & Co
<b>Tier 2</b> Antis Triantafyllides & Sons Chrysses Demetriades & Co
<b>Tier 3</b> Chryssafinis & Polyviou L Papaphilippou & Co
<b>Tier 4</b> Dr K Chrysostomides & Co George L Savvides & Co Georgiades & Pelides Montanios & Montanios Tassos Papadopoulos & Associates

Since Cyprus gained entry to the EU in 2004, and leading up to its entry into the Eurozone in 2008, the harmonization of domestic law with European law has continued apace. In August 2006 the European Public Limited Company Regulations were enacted, bringing the country into the pan-European *societas europaea* (SE) system. Now Cyprus has fully implemented the EU Merger Directive, companies from other EU states can merge with Cypriot SEs at no extra tax cost. Given Cyprus's corporate tax rate of 10% is the lowest in Europe, there are substantial advantages to be gained by functioning as a Cyprus-incorporated SE. So it is not surprising that a trend towards international companies reforming as such entities is emerging.

In Cypriot law the EU Takeover Directive takes the form of the Public Takeover Law. It is hoped that the new law will provide a boost to Cyprus's capital markets, which have stagnated since the country's stock market crash in 2000.

Because of the country's efficient tax regime there is an incredible variety of holding structures. Cyprus is commonly used as a conduit for investment not only into the EU, but also out of it, into the Russian Federation, the Commonwealth of Independent States and neighbouring areas. Much of the work of the top-tier law firms involves advising multinationals or their legal counsel in these investments. There is also a lot of domestic M&A taking place as Cypriot companies and those

from overseas, particularly Greece, seek consolidation.

None of the global law firms has entered Cyprus's legal market yet and many of the law firms remain traditional family-run operations, although a number of corporate law firms leading the pack are developing fast along more modern partnership lines.

### Andreas Neocleous & Co

Andreas Neocleous & Co is recognized by competitors as the clear leader in the market and is renowned by its clients for the "very professional service" it provides. Over the last year the firm has consolidated its position at the top of the tree, recruiting eight new lawyers to its Limassol office over and merging in January 2007 with the distinguished Maria Kyriacou's boutique MA Kyriacou Law Firm, based in Nicosia. Kyriacou made a name for herself serving as Registrar of Companies and Official Receiver as well as Registrar of Patents and Trademarks in the period leading up to Cyprus's EU accession, and this merger represents a coup for the firm.

The practice has also continued to strengthen its offices in Kyiv and Moscow, where it has just moved into larger offices. The firm also plans to relocate its Limassol headquarters to new premises in 2008. Since Nicholas Ktenas and Olga Mikhailova were elected to partnership, the firm has 13 partners and 47 associates in Cyprus with a further 30 lawyers practising in its international network of offices in Moscow, Kyiv, Prague, Budapest and Brussels.

Given the firm's reputation it was the natural choice for RPG when it decided to merge its assets into a single company and transform the resulting entity into Cyprus's first SE, and the first large SE created in Europe. The €3 billion transaction was groundbreaking as it represented the first application of the EU Mergers Directive in Cyprus to an international merger. It threw up many complications because there was no precedent, but the team managed to close the entire transaction within a month of the enabling legislation, the European Public Companies Regulations, having come into effect. The deal is likely to be followed by a series of similar transactions as businesses across Europe recognise the advantages of re-incorporating as Cyprus SEs. Subsequently the firm advised K&K Capital Group on the formation of KKCG SE and expects to be called upon to effect these types of transactions more and more in the future.

In other highlight work, the firm guided Manitogorsk Iron & Steel through its \$11 billion dual listing in London and Moscow. The practice also provided advice to Kommunalkredit International Bank in rela-

tion to its recent \$5 billion US commercial paper programme. This is the first issue of its kind in Cyprus and the first time a Cypriot bank has been approved to market its debt to American investors. In a more recent capital markets transaction, the firm counselled another Cypriot bank, Marfin Popular Bank, on its €3 billion programme of Euro medium-term notes.

The firm is very strong on the corporate front and recently a team gave counsel to Rosboronexport, the Russian state-owned armaments exporter, on the \$12 billion acquisition of VSMPO-Avisma, a Russian metals company accounting for 30% of the world's titanium production, in the largest reported corporate transaction in Russia in 2006. In another standout transaction, the practice advised Rreef on its €126 million acquisition of Lanitis Development. The deal Cyprus's first-ever leveraged buyout and probably a global first in terms of being a leveraged buyout of an integrated resort facility backed by future income streams from hotel, golf and residential operations.

The firm has a broad skill set and also excels in corporate reorganization. Recently it has been selected to advise on the \$14 billion demerger into three discrete companies of Tyco International, a global company employing 250,000 people worldwide and with revenues of \$40 billion.

The practice maintains an enviable international client list which includes referral arrangements with international law firms; global corporates such as Estée Lauder, De Beers, Heineken, Six Continents and Dell; and most of the large international banks and financial institutions. Among the latter are Barclays, Deutsche Bank, Morgan Stanley and Credit Suisse.

#### Leading lawyers

Kyriacos Georgiades  
Elias Neocleous

### Antis Triantafyllides & Sons

Antis Triantafyllides and his two sons run a practice which is highly respected in the market. Peers commented that the firm has "some wonderful lawyers" and that in particular "the two brothers are very good". One client said of the firm: "It handles its business extremely well". The firm is responding to the high levels of work in the market through growth and, having taken on five new lawyers in the last year, comprised 17 at the last count.

The practice is very active in banking and finance, and in May 2007 it could be seen acting for a bank in relation to the \$1.5 billion acquisition financing of an infrastructure pro-

ject in Russia. A team has also been advising banks on loan participation notes and on the structuring of a \$1 billion series of credit-limited notes.

The firm also has a good name in capital markets. At the end of 2006 it provided counsel to IFR Capital, owner of Nordsee, on its €132 million initial public offering (IPO) on the Alternative Investment Market (Aim). At the time of writing the firm was also guiding Urals Energy through its \$800 million Aim listing.

Antis Triantafyllides & Sons has a substantial corporate offering. As well as acting for a US party in relation to a joint venture for a telecoms project in Russia, the firm has been involved in a number of local transactions including Vivartia's takeover of Christies Dairies and the acquisition of Aristo Developers by Dolphin Capital Atlantis.

#### Leading lawyers

Stelios Triantafyllides

### **Chrysses Demetriades & Co**

Chrysses Demetriades & Co is praised as an extremely influential and competent outfit, second only to Andreas Neocleous & Co. Comprising of 13 partners, four consultants and 24 advocates, the firm is well endowed to profit most from the higher volumes of work in the market.

The consensus remains that "Christos Mavrellis is the lawyer that stands out at this firm". Rivals regard him as "a very knowledgeable lawyer who is extremely focussed on getting the transaction done". One said "He is quite a joy to have on the other side of the transaction because you know that he will be very efficient and get things done." Not all the praise is reserved for Mavrellis though. One market observer singled out Chris Georghiades as "a very competent leading lawyer".

#### Leading lawyers

Chris Georghiades  
Christos Mavrellis

### **Chryssafinis & Polyviou**

Established in 1903, Chryssafinis and Polyviou has earned a solid reputation amongst its peers, particularly for its work in banking.

Partners Polis and Stella Polyviou are supported by 13 associates in their work representing a number of banking institutions in the island, a number of petroleum companies, Cyprus Airways, The Cyprus Broadcasting Corporation, The Municipality of Nicosia and a string of other clients including the US

government and the British Council in Cyprus.

The banking and finance department is headed by Polis Polyviou, who one client described as "a real lawyer... who has a very good understanding of banking practice". This department is also responsible for the firm's M&A assignments, which have involved the Bank of Cyprus Group, Exxon Mobil and BP, and numerous other ventures.

#### Leading lawyers

Polis Polyviou

### **L Papaphilippou & Co**

Since it was founded in 1963, Nicosia firm L Papaphilippou & Co has been through three mergers and now has additional offices in Limassol and Paphos, as well in Athens, Warsaw and Geneva. This international presence adds traction to its highly commended service. In particular, managing partner Leandros Papaphilippou, the son of the founder, is widely viewed as one of the country's top practitioners.

L Papaphilippou & Co offers an impressive range of services, including specialist advice on banking and finance matters, business law, insurance law, securities law, corporate law and international trade matters. The firm is also the member for Cyprus of the State Capital Law Firm Group.

#### Leading lawyers

Leandros Papaphilippou

### **Tassos Papadopoulos & Associates**

Tassos Papadopoulos founded Tassos Papadopoulos & Co with Pambos Ioannides in 1981. The firm quickly established a solid reputation for its successes and range of legal work. However, some commentators suggested that the firm was losing a certain amount of focus since Tassos Papadopoulos left the firm to become the country's president in 2003. The firm's progress in recent years has been made uncertain by legal wrangling, following accusations of impropriety reproduced in the *Financial Times*.

A new partnership was registered under the name Tassos Papadopoulos & Associates in May 2007 by several of the firm's lawyers including Papadopoulos's son and daughter, Nicholas and Anastasia.

Tassos Papadopoulos & Co was dissolved on June 30 2007, and the newly formed Papadopoulos & Associates has yet to establish a definite market position. Pambos Ioannides meanwhile has created a new firm, Ioannides Demetriou Law Offices. In the old

partnership it had been he who had the most recognition for being a "very good corporate lawyer", having good banking clients and "handling big cases and knowing what he is talking about".