

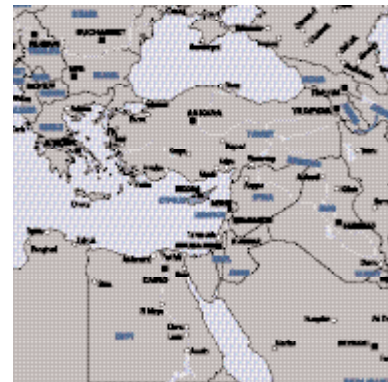
Cyprus

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Recent developments in Cypriot corporate finance legislation

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On May 1 2004 Cyprus acceded to the European Union, becoming only the third common law jurisdiction to do so. Whilst the cultural and economic gaps between Cyprus and the EU were far smaller than those in relation to the other acceding states, some fine-tuning of the corporate financial and fiscal legislative structure was required.

Financial Services Firms Law

The Financial Services Firms Law (No 148(I) of 2002) was enacted to regulate the licensing and supervision of financial and investment services in Cyprus, and to harmonize Cypriot legislation with EU law, by introducing the free movement of investment services and by reforming the Cyprus Stock Exchange.

The law regulates investment services provided by a Cypriot investment firm, a branch of a foreign company registered in Cyprus, or cross-border transactions provided in Cyprus by a company incorporated outside Cyprus without a branch. Such investment services include dealing in financial instruments such as transferable securities and shares in collective investment undertakings, money-market instruments, financial futures contracts, forward interest rate agreements, interest rate currency and equity swaps and options, and should reduce the exposure of the investor to extraordinary risks.

These firms are now under the supervision of the Capital Markets Commission, a body equivalent in some ways to the UK's Financial Services Authority. The maintenance and security of the minimum capital requirements was established, and an investor compensation fund was introduced.

EU-registered firms outside Cyprus that provide services (either through a branch in Cyprus or on a cross-border basis) are now authorized to operate within Cyprus under the European passport benefit system. Cypriot-registered firms may also likewise provide such services throughout the rest of the EU. Applications for a licence must include a business plan, details of the services to be provided, an operational schedule, a draft memorandum and articles of association, as well as details of internal controls, risk management mechanisms and anti-money laundering measures. Prudential rules also now govern the use of investor capital more tightly.

Movement of Capital Law

The Movement of Capital Law (No 115(I) of 2003) governs both the movement of capital and payments between residents of Cyprus and other EU member states and between residents of Cyprus and those of third countries, as well as transactions in

foreign currencies and gold within Cyprus. Subject to limited exceptions, all such movements – including investments in immovable property, share transactions, loans and movement of personal capital – may be carried out without any restrictions. The liberalization of the movement of capital and payments will not however affect previous restrictions on movements of capital by residents of third countries that involve direct investments, including the acquisition of immovable property.

Further, under Article 60 of the EC Treaty and section 6 of the Movement of Capital Law, Cyprus may, for serious political reasons and on grounds of urgency, take unilateral measures against a third country with regard to capital movements and payments. It may also take all necessary measures to prevent the violation of any law in force in Cyprus, especially in the areas of tax compliance and the pre-emptive supervision of banks. It may also set procedures for the declaration of the movement of capital for administrative or statistical purposes, and take such measures as is necessary to enforce public order or national security.

Direct investments in Cyprus by citizens of EU member states may also be undertaken under the relevant rules – the rules previously only applied to Cypriot persons. Under the Central Bank Law (Law 138(I) of 2002) permission of the Central Bank of Cyprus is still required for anyone, other than a financial institution, to deal in foreign currencies.

A bright future

Foreign participation in the Cypriot economy is a well-established policy that is strongly encouraged by all official bodies and authorities, and an extremely favourable environment for all forms of international business activity and foreign investment has been created. With a corporate income tax rate of 10% – the lowest of all EU member states – Cyprus has for a long time been a low-tax jurisdiction. The new Cypriot tax regime is fully compliant with the EU Code of Conduct for Business Taxation, and strictly adheres to the OECD's rules for the elimination of harmful tax practices.

There are tremendous possibilities for international tax planning through Cyprus. Double taxation treaties have also been concluded with most of the world's economically powerful nations, including the US, China, India and Russia. This makes Cyprus an ideal base for companies seeking to enter into joint venture activities in eastern Europe, primarily because of the reduction or elimination of withholding taxes on the distribution of joint venture profits to the respective parties and the extraction of dividends, interest and royalties.

In view of the close proximity of Cyprus to both the key markets of eastern Europe and the Middle East, and the critical mass of professional support services that have also established themselves on the island, the future of the financial services sector is assured.

Corporate and commercial

Recommended firms

Andreas Neocleous & Co

Chrysses Demetriades & Co

Antis Triantafyllides & Sons

Chryssafinis & Polyviou

Dr K Chrysostomides & Co

Montanios & Montanios

Tassos Papadopoulos & Co

George L Savvides & Co

Georgiades & Pelides

L Papaphilippou & Co

Andreas Neocleous & Co

With 45 lawyers in Cyprus, Andreas Neocleous & Co is one of the biggest law firms in the country. It has a further 22 lawyers practising in offices in Moscow, Kiev, Prague and Budapest. The firm has recently added to its numbers, with associates Michaela Tsikini joining from Richards Butler in London and Thomas Forsch joining from Law Office Acker Choquette in Dubai.

Recently the firm has advised Nabarro Nathanson concerning the acquisition of a listed company with its assets in Cyprus. In another acquisition, the firm also advised Advent Venture Partners as it acquired and consequently privatized the national Bulgarian Telecommunications Company. The deal also involved input from CMS Cameron McKenna. The firm has also been advising on the financing, construction and organization of a Radisson/Park Inn hotel in Russia, and was also brought in to advise the Bulgarian government on a range of issues concerning a Bulgarian oil refinery and its Cypriot holding company.

In a deal closed in December 2003, the firm advised Kommunalkredit International Bank on a €2 billion (\$2.3 billion) commercial paper programme. As well as advising the Hellenic Bank and the Cyprus Popular Bank, Andreas Neocleous & Co was also brought in on a €900 million security and debt issue by Raiffeisen Zentralbank Österreich AG to help on various credit finance transactions. These involved Cypriot borrowers and security providers.

Andreas Neocleous & Co is also sought after for its project development capacity. Recent clients include Bass Hotels, Thomas Cook, Sodexo and a consortium of firms bidding for the public-private partnership contracts to upgrade the airports at Paphos and Larnaca, worth some \$404 million.

Key contact partners

Kyriacos Georgiades
Elias Neocleous

Chrysses Demetriades & Co

Due to its experience with international clients, Chrysses Demetriades & Co is traditionally seen as a leading firm in asset finance, ship finance and banking. It has recently added to its staff, recruiting Philip Allenby as an associate. He joins a team of recommended individuals, including Christos Mavrellis, described as a lawyer with “a lot of experience in banking” and also Ilyina Constanides, who is seen as strong in shipping finance and international banking work.

The firm serves a list of clients that includes listed companies, shipping companies and banks, and has offices in Limassol and Nicosia in Cyprus and Piraeus on the Greek mainland.

Key contact partner

Christos Mavrellis

Leading lawyer

Christos Mavrellis

Antis Triantafyllides & Sons

This firm advises a range of impressive clients, including the Cyprus Securities and Exchange Commission, the National Bank of Greece and Morgan Stanley. The firm has recently worked in sectors including brewing, brokerage and airlines. Partner Stelios Triantafyllides earns high praise from his peers for his capital markets work.

Key contact partner

Stelios Triantafyllides

Chryssafinis & Polyviou

Name lawyer Polys Polyviou is regarded as “a very able lawyer” at this, the oldest firm in Cyprus. Its age gives it a strong reputation for providing local law advice, especially in banking.

Key contact partner

Polys Polyviou

Dr K Chrysostomides & Co

With offices in Limassol, Nicosia and Larnaca, this firm is known for its work in banking and trusts, both nationally and internationally. The practice has some 14 lawyers, but name partner Dr Chrysostomides has put his work for the firm on hold and instead acts as a government spokesman. In his absence, the firm is being steered by Mrs Chrysostomides and one other partner.

Tassos Papadopoulos & Co

This is a firm described by a competitor as being “deeply involved in banking issues”. Its client list includes the Cyprus Popular Bank, The Commercial Bank of Greece and HSBC Republic Bank (Cyprus). Tassos Papadopoulos & Co is also the official appointed legal advisor to the Cyprus Stock Exchange, and regularly advises it on both international and domestic securities matters.

Among the team of lawyers, Pambos Ioannides is well respected, especially for his work on banking matters.

George L Savvides & Co

Reputable firm George L Savvides & Co gives high-level advice on corporate transactions, and has a close relationship with both domestic and international banks. It advises on corporate finance as well as shipping finance, and has recently finished acting for an international bank in a \$200 million corporate finance project. The firm is also first choice for many of the tourism industry’s main bodies.

The firm suffered a slight blow in February 2003 when one of the firm’s key partners, Markos S Kyprianou, left after being appointed the Cypriot minister of finance. However, the departure does not seem to have damaged the firm’s visibility or the depth of its corporate practice. The firm regularly deals with mergers and acquisitions, joint ventures and listings of public companies at the Cyprus Stock Exchange. It has also provided top-level advice to non-Cypriot corporations and individuals who have chosen to set up operations in Cyprus following the recent liberalization policy introduced by the Central Bank of Cyprus.

Key contact partner

George Savvides

Other notable firms

Marcos Georgiades is a rising star at **Georgiades & Pelides**, and is especially concerned with capital markets work at this Nicosia-based firm. George Korfiotis of **Koushious & Korfiotis** is also strong in capital markets work. **L Papaphilippou & Co** is considered particularly good for banking advice. The firm has 12 partners and six associates in offices in Nicosia, Limassol, Paphos and Athens, with a further office in Warsaw, headed by partner Elena Malekou.