



Christodoulos G. Vassiliades

Managing Director – Advocate

LEDRA HOUSE, 15 Agiou Pavlou Street, Agios Andreas, 1105 Nicosia, Cyprus

Tel: +357 22 55 66 77 | Fax: +357 22 55 66 88 | Web Site: www.vaslaw.net

Last year *Lawyer Monthly* spoke to Christodoulos G. Vassiliades, founder and managing director of Christodoulos G. Vassiliades LLC. & Co about the issues surrounding Corporate Law in Cyprus and the challenges commonly raised. This month, we re-visit Christodoulos to find out what the firm has been working on since we last spoke and what, if anything, has changed within this particular sector.

The last time you featured in *Lawyer Monthly* was in April 2014; how was the rest of the year for you, professionally? Have you worked on any notable cases you can tell us about?

Following on from our feature in April 2014, and our concluding sentence being 'after a storm comes a calm' we can certainly state that we have weathered the storm and sailed safely through maybe one of the most challenging year for Cyprus, its people as well as its business and economic sector.

At that time, you said that 2013 had seen many economic developments which put Cyprus on the world map. Did anything similar happen in 2014?

There have been a number of significant domestic as well as international events occurring in 2014 placing Cyprus in the public eye, which have to some extent affected the Cypriot economy, and the services industry.

In the aftermath of the financial crisis of 2013, and the subsequent downsizing of the banking sector, Cyprus is once again finally returning to the international capital market scene. The uncertainty of the banking sector was thankfully short-lived. The recapitalisation of the banking sector, achieved in large part through the merger of the two leading Cypriot banks (Bank of Cyprus and Laiki Bank) and the €10-billion bailout package from foreign lenders in April 2013, has set the country on the right track and today, Cyprus shows strong signs of recovery, evidence of which is shown in the relaxation of capital controls and its healthier credit ratings.

Other reasons behind Cyprus' revival are the advancements with regard to the discovery, extraction and prospective distribution of the natural gas, which are progressing and will continue to do so for some years ahead. This development greatly broadens the scope for Cyprus in the future, as this will guarantee to a large extent its sustainability, creating opportunities for new international alliances and fortifying existing partnerships.

Cyprus has always been a desirable target jurisdiction

for foreign corporate entities for the purpose of tax mitigation, owing to its favourable tax schemes including its vast network of Double Tax Treaties which currently number 48, as well as the flexibility and simplicity of transactions, a friendly corporate regulatory framework, all of which are pivotal in achieving a competitive advantage.

How do you see 2015 shaping up for the industry?

Despite these alarming historical events, Cyprus proved that it has not followed the path everyone was expecting. This newfound positive outlook for Cyprus is attributable to its many advantages, including its status as an ideal financial hub for investors, granting vital access to Europe, the Middle East and Africa. Also, as a member of the European Union, Cyprus still holds the benefits associated with this alliance.

For 2015 our expectations remain positive. We are confident that conditions will continue to improve or at worst, that the situation will remain as it is, and that Cyprus will continue to maintain its long-term economic stability. Furthermore, we are confident that the island will remain attractive to foreign investors from Russia, China and the Middle East regions.

You mentioned that in 2012 and 2013, Cyprus made several changes to its regulatory framework to 'increase transparency and further comply with the international standard on transparency and exchange of information for tax purposes'. How successful have these changes been, and what have been the effects?

Following the changes to the Cyprus regulatory framework in 2012-2013, Cyprus continues to promote the policy of increased transparency and exchange of information and has gone through further restructuring over the past year.

On 29 October 2014, Cyprus signed the new OECD and G20 standard on Automatic Exchange of Information (AEOI), and has been declared an 'early adopter', being among 51 other states to have

already signed. Cypriot legislation has been reformed to present a more straightforward and transparent tax system which is consistent with international best practices and fully compliant to the EU and international standards, as well as the Financial Action Task Force (FATF) and Financial Stability Forum (FSF). This legislative change has excluded Cyprus from the blacklist (OECD tax havens) and added it to the OECD white list, portraying territories which have applied international best practice standards aimed at tax transparency.

Furthermore, on 2nd December 2014, the Minister of Finance and the US Ambassador in Cyprus signed the Intergovernmental Agreement (IGA) for the purpose of the enactment of FATCA (Foreign Account Tax Compliance Act) which requires US taxpayers to report their financial accounts held abroad. The subsequent increased reporting requirements have prompted greater transparency and exchange of information for tax purposes. Financial institutions are bound to be fully compliant with international standards and are hence more secure. This is a critical step for Cyprus, since it is determined to restore its banking sector to a new and improved status.

What challenges have you faced professionally since your last interview, and how did you navigate them?

As a law firm, we have faced several challenges during the economic crisis, as have many of our fellow competitors. We feel fortunate however, that any marks borne by these events, do not appear to be permanent. In a period of intense instability, we have prevailed and continue to move forwards in anticipation of new future opportunities for growth. It is evident that our clients' trust in us is steady and this fact is something which we strive to maintain. We do this by ensuring that the quality of our services remains intact. Proof of our endurance is our ability to expand in this period of recovery, with the introduction of our new affiliated offices in Malta and London.



CHRISTODOULOS G. VASSILIADES & CO. LLC
Advocates - Legal Consultants

Corporate Law

This month we take a look at corporate law by speaking to Christodoulos G. Vassiliades, the Founder and Managing Director of the Law Firm Christodoulos G. Vassiliades & Co. LLC. He specialises in Corporate Law, Trust Law, Commercial Law, International Tax Planning, Shipping and Banking Law.

What are the key legal, regulatory and business challenges companies and individuals face operating in your country and cross its borders?

The year 2013 has certainly left its mark on Cyprus. Predominantly, due to the banking crisis which has kept the entire Island and the international community on edge for nearly two weeks, while the Cyprus Government was negotiating vital terms for the Islands survival. Additionally, there have been other legal and regulatory developments in the corporate field, which ought to be observed in the coming year. We shall briefly address just some of them:

BANKING CRISIS - SAILING AHEAD

a) Recent economic developments which unraveled in March 2013 have certainly put Cyprus on the world map. The country's status as a financial center seemed to have been wounded due to the losses suffered by uninsured depositors, which were held with the Cyprus Popular Bank (ex Laiki Bank) and The Bank of Cyprus. On 22 March 2013 two laws were passed: The Resolution of Credit and Other Institutions Law of 2013 (Law 17(I)/2013) and The Enforcement of Restrictive Measures on Transactions in Case of Emergency Law of 2013 (Law 12(I)/2013). These laws in summary provided that a) The Central Bank of Cyprus, Minister of Finance and the President of the Cyprus Securities and Exchange Commission were appointed to be in charge of the downsizing and recovery process of the Cyprus Banking Sector (Law 17(I)/2013) and b) a ban was imposed on cashless payments or transfer of deposits/funds from Cyprus to accounts held outside of Cyprus and a ban on the termination of fixed term deposits before the maturity, unless the purpose of doing so was to repay a pre-existing loan. Furthermore, capital controls were imposed on individuals limiting cash withdrawals (Law 12(I)/2013). Justifiably, we in the legal sector were very anxious as we were preparing ourselves to deal with the legal consequences in relation to our domestic and international clients. It is not a secret that the economy of Cyprus is mainly driven by the service sector which is internationally orientated, resulting in relatively high foreign direct

investment flows. As a result, a part of the burden is also upon us in the legal profession, to re-build the trust by providing the general public and our clients with the necessary legal information in order to instill investor confidence.

AUTOMATIC EXCHANGE OF INFORMATION- FEAR OF A FISHING EXPEDITION?

b) The G20 has agreed on the global automatic exchange of tax information. Cyprus has exchange of information relationships with 53 jurisdictions through a network of Double Tax Treaties (DTT's) and Council Directive 2012/16/EU. These mechanisms generally contain sufficient provisions to enable Cyprus to exchange all relevant information. Effective exchange of information requires the availability of reliable information in relation to the identity of owners and other stakeholders as well as information on the transactions carried out by entities and organizational structures. While any developments are welcome in relation to combating and eliminating tax evaders, the worry that is present is that unnecessary information will be disclosed, i.e. information which has nothing to do with any investigation of a particular country's tax authorities. In simple term, there is a fear of fishing expeditions.

How can these challenges be navigated?

a) In relation to the banking crisis it is vital to be noted that only two local banks out of the 40 banks operating in Cyprus have been forced to undergo restructuring, leaving the majority of the banks on the island unaffected. Since the introduction of the capital controls a significant amount has already been eased, while a definite date is yet to be set to completely lift these measures. Amongst many decrees, on 30th January 2014 the six-month time deposits that were blocked as per the decrees have been released. This move clearly indicates that the Cyprus banking system is on its way to stabilisation, which will help reinforce the confidence of the public and investors in our banking system. Funds that have reached bank accounts post March 2013 are not subject to any form of capital control. Furthermore, reflecting now nearly one year after the crisis, it is evident that Cyprus still remains a financial center

and an attractive jurisdiction for many reasons. Our solid experience in corporate structuring continues to provide international businesses with an attractive base for their operations. We still have a fully EU-harmonized tax and legal framework, one of the lowest and most competitive corporate tax rates in Europe at 12.5%, 50 Double Tax Treaties, and no withholding taxes on dividends, interests and royalties outside Cyprus. Moreover, we still have a preferential access to high-growth markets like Europe, Russia, China and India.

b) In 2012 and 2013, Cyprus made a number of changes to its legal, regulatory framework and practice to increase transparency and further comply with the international standard on transparency and exchange of information for tax purpose. Subsequently, all trustees are now under an obligation to have information available on the other trustees, settlors and beneficiaries. Accounting record keeping obligations were amended to cover all relevant entities and arrangements. Finally, bilateral agreement have been signed or updated to allow for exchange of tax information in accordance with the international standards. However, while promoting transparency and welcoming a framework which combats tax evaders, it has to be noted that a need for confidentiality is a vital and integral part of any jurisdiction and its legal dealings. Subsequently, a delicate balancing act between the two is absolutely vital, in order to prevent 'fishing expeditions'. Any information required to be disclosed must be foreseeably relevant to the purpose and predominant reasons of the original request.

How does the corporate law regulatory framework in your country differ to the rest of the world?

Cyprus's corporate regulatory framework is not very different from other common law jurisdictions. The main Corporate Law legislation, which is Companies Law Cap 113, is based on the English Companies Act 1948, with subsequent amendments that followed.

Subsequently, we are offering foreign businesses and individuals a familiar and reliable framework

within which to operate and to secure the ownership of their assets. Being a member of the EU, Cyprus is fully compliant with the EU regulatory framework, the Financial Action Task Force on Money Laundering (FATF), the Organization for Economic Co-operation and Development (OECD) and the Financial Stability Forum.

Subsequently, from a practical point of view the following is entailed, while operating a business in Cyprus:

- A Cyprus private company is obliged to file audited financial statement once a year;
- A Cyprus private company is obliged to file its tax returns;
- Provided that it engages in actives subject to VAT it must be registered with the VAT authorities should the threshold of a gross overturn of €15.600 be met;
- An Annual General Meeting (AGM) of shareholders must be held once a year and no later than within 15 months from the previous one;
- There is also a levy imposed of €350 on all companies registered in Cyprus;
- Every transaction/document entered into requires the approval of the Board of Directors, unless, in a particular circumstances the approval of the shareholders are required;
- As a general rule the business of the company is managed by the Directors of the company;
- Shareholders deal with such matters as reduction increase of share capital, alteration of the Article of Association, the appointment and removal of Directors at the AGM etc.
- The Registrar of Companies is the governmental body that is responsible for overseeing the companies registered in Cyprus and keeping its records. As a general rule any changes/ transactions that affect the company or its assets (sale of shares, change of Directors, pledge of shares, increase/decrease of share capital, appointment of liquidator etc.) must be registered with The Registrar of Companies;
- Issues such as the alteration of the Memorandum of Association, the decrease of share capital, the decrease of the share premium account, the registration of a pledge after a relevant dead line has passed, requires court approval.

Is there anything else that you would like to add?

What ought to be mentioned is that the Cyprus corporate regulatory framework is business friendly aimed at allowing companies to conduct their business smoothly and effectively.

We have certainly not sailed smoothly through 2013 however, as the saying goes 'after a storm comes a calm'. Our expectations for 2014 are certainly more optimistic. **LM**