

NARRATIVE REPORT ON CYPRUS



PART 1: NARRATIVE REPORT

History of Cyprus as an offshore financial centre

For Cyprus, establishing itself as an international centre for business and finance has been an important point on the political agenda particularly since the invasion of the northern parts of the island by Turkey in 1974. The country has limited potential for industry, little agriculture and are heavily reliant on tourism, therefore finance and business services have been a rare growth sector providing good high-paying jobs for an increasingly educated and specialised workforce (Mullen, 2013). As a result, the financial sector played and continues to play a dominant role in the Cypriot economy. Cyprus’ banking sector assets were estimated to be equivalent to more than 900 percent of GDP in 2010, at the height of the expansion of the Cypriot financial sector. This number fell to to under 500 percent by 2013, after the crisis, according to the European Stability Mechanism, but still remains considerably higher than the Euro Area Average¹.

Shipping

Like other tax havens (such as Liberia) the shipping industry has provided a catalyst for the offshore industry. In 1963 Cyprus brought in an attractive legislation and tax regime for the merchant shipping industry. Over time, this has attracted international business within the shipping industry to Cyprus, and it has grown in to one of the most important maritime registries worldwide. Today it is the biggest third party ship management centre in the EU (PwC Cyprus, 2013, p. 1). Due to the low corporate tax rate of 12.5%, in addition to the possibility to utilise a range of beneficial tax deductions and low capital requirements (thin capitalisation), the effective tax rate can be significantly lower than 12.5%, and Cyprus remain a very competitive tax destination for shipping registration, management and holding companies. It remains one of only two European ship registries that are open registries, meaning that it is open to all ships regardless of nationality, and constitutes an estimated 15% of all ships under EU flags (PwC Cyprus, 2013, p. 4).

Banking

In the period following EU and Eurozone accession, Cypriot banks consistently offered higher deposit interest rates than the EU average, attracting both domestic investors and money from abroad. Deposits in Cyprus banks have for the previous decade often returned close to double the interest rates than banks in other European countries, like Spain or Italy (Reuters, 2013). Until 2004 Cyprus imposed foreign exchange controls, and with few competitive sectors to invest in, most Cypriots put their savings in a domestic Cypriot bank (Mullen, 2013).

These factors of attracting capital from abroad and absorbing so much of the potential domestic credit, combined to create a soaring growth rate for Cypriot banks in this period. As a ratio of the gross domestic product in the country, assets in Cypriots banks increased from over 450% in 2005 to 896% in 2010. These numbers are very high, although not unique in the EU: The size of the banking system in Luxembourg is more than twenty times the size of its GDP (Stephanou, 2011, p. 128). Although boosting the growth in the financial sector, the increased size of the banking system of Cyprus increased the exposure to Cyprus to

Rank: 24

Chart 1 - How Secretive?

61
Secrecy Score

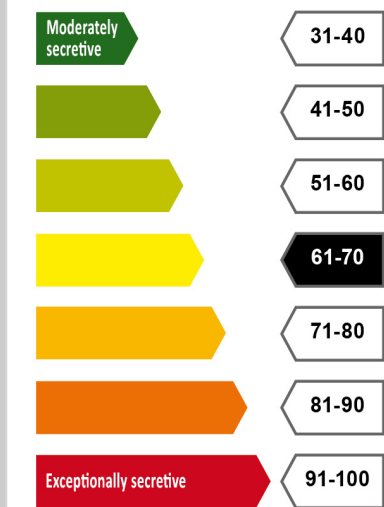
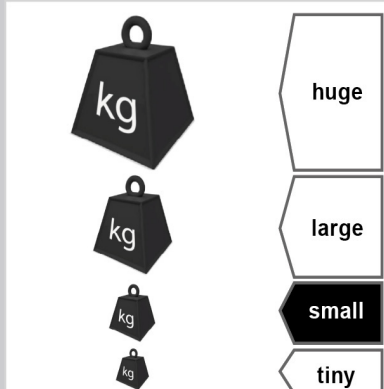


Chart 2 - How Big?



Cyprus accounts for less than 1 per cent of the global market for offshore financial services, making it a small player compared with other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data on Cyprus is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financial-secrecyindex.com>.

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systemic risks, which indeed became a problem after the financial crises and the sovereign debt crisis in Greece.

The Russian Connection

The linkages between Cyprus and the Russian economy are deep, complex and have historical roots. After gaining independence in 1960, rather than aligning with the West and Nato, the first president of Cyprus Archbishop Makarios III sought out a so-called middle course for Cyprus, identifying himself with the Non-Aligned Movement. Politically Makarios was dependent on the support of AKEL, the Communist party that has traditionally maintained close ties to Moscow. The Communist party in Cyprus is the strongest in Western Europe to this day, and has received about a third of the votes in almost every parliamentary election since 1970. Over time, these political ties translated into more personal ties, as the Communist political elite in Cyprus sent their sons and daughters to be educated in the Soviet Union. Bonds were made in language as well as in personal relations.

As the Soviet Union dissolved in December 1991, Cyprus was among the few countries where Russians could travel without a visa. In the turmoil of constructing a market economy in Russia, Cyprus was a both accessible and attractive destination for Russians to put their money. Cypriot banks, accountants, tax planners, investment managers and lawyers were more than happy to receive Russian money and business, and for those Cypriots educated in the Soviet Union, language and contacts became an important source of business opportunities from the newly emerged market economy. The dominance of Russian investments to the Cypriot economy is evident when you look at the statistics from 2011 of Foreign Direct Investment (FDI), before the bank crisis. FDI both to and from Russia was five times that of the second most important source of FDI, which was Greece. That FDI is so large in both directions, have by several scholars been pointed out as a sign that Cyprus is used as a jurisdiction for round-tripping capital by Russian wealth holders and companies.

Although good information or data on the nature of Russian business in Cyprus is generally not very accessible, business experts in Cyprus explained the role of Cyprus as a booking centre, or back office, for Russian companies. Since business is easier to conduct in Cyprus than in Russia, concerning rule of law, legal standards, banks, access to international professionals and so on, everything gets booked through Cyprus. Goods that are sold from Russia

to the EU market are often first sold from a Russian company to a Cypriot company, before they are sold on to its destination. In addition, many Russians have their wealth placed in Cypriot banks and financial institutions.

Cyprus has been the primary destination of outward FDI from Russia in later years, but this pattern clearly changed in the first quarter of 2013, where investment in Cyprus fell and investment in the UK, Luxembourg and the British Virgin Islands in particular soared. The increase in FDI to competing international financial centres are signs that Russian capitalists sought out new 'safe harbours' for their money following the Cypriot bank collapse.

EU accession and tax reform

Cyprus applied for EU membership in 1990, and joined the EU in 2004. With the EU application came the need to reform the tax code.

"When we started the negotiations, the EU told us that there is no way that a country can join with a 4,5% corporation tax system" - George Vassiliou, chief negotiator of the EU accession (Vassiliou, 2013).

Cyprus' application to EU membership was accepted, in principle, in 1993, but accession negotiations did not take place until 1998 (Anderson, 2008, p. 12). The primary goal of the negotiations was for Cyprus to adopt and implement the *acquis communautaire*, the body of European Union law. From the start the EU made it clear to chief negotiator George Vassiliou that Cyprus needed to change their tax system, which at the time was a classic offshore tax system with a 4,5% corporation tax (Vassiliou, 2013). In order to prepare for EU accession, Cyprus planned a complete reform of their tax system.

In August 2001 the Ministry of Finance engaged Dr. Wolfgang Gassner, an Austrian professor at Vienna University of Economics and chairman of the accounting firm Deloitte & Touche Austria as an external advisor to the reform of the tax system (Savvides, 2002, p. 5). He was to become the main architect behind the new tax system in Cyprus. Gassner had played a central role in the process of aligning the Austrian tax code to the *acqui* in the accession process of Austria, that joined the EU in 1995. He emphasised the need for a substantial tax reform in Cyprus, with the goal to create a tax system that conformed with European Law and the *acqui*, satisfied the OECD who had initiated a campaign against Harmful Tax Competition, yet making the tax system as competitive as possible in the framework of what he called "Global Tax Competition" (Gassner,

2001, p. 2).

Key changes to the tax system

Amongst the key issues the EU addressed in the tax reform was that Cyprus needed to dismantle their system of different tax rules for resident and non-resident tax payers (Savvides, 2013). This is a classic trait of an offshore tax system, where resident tax payers are ring fenced, and subject to one set of tax rules, while non-resident businesses and individuals are subject to another, and usually much more lucrative, set of tax rules. These sorts of practices were both discriminatory according to EU law, as well as not being in line with the OECDs guidelines under the project Harmful Tax Competition (Gassner, 2001, p. 5). The principles in the OECD project were emphasised by the EU negotiators during the accession negotiations, and both the offshore companies and the 4,25% tax rate was identified by EU negotiators as “harmful tax competition”.

In all, the tax reform consisted of 17 pieces of legislation, enacted in June and July of 2002 (Gassner, 2003, p. 23). In addition to abolishing the preferential treatments based on territoriality, the old tax system had a myriad of exemptions, deductions, allowances, special rates and other incentives that the new tax system sought to clear out. The overall strategy of the tax reform was to cut the rates of income tax, as the same time as broadening the tax base with the goal to make the tax system more transparent, easier to administer and more efficient (Gassner, 2003, p. 24). The opportunity to cut rates in income tax came from the need to harmonise value-added taxes (VAT) and excise duties with the European Union, where the minimum rate was 15%. This meant that Cyprus had to significantly increase their taxes on consumption, which effectively doubled the income from indirect taxation. This increase in revenue provided the financing for a lowering of taxes from direct taxation (Gassner, 2003, p. 24). As Cyprus joined the EU with a reformed tax system, it had the lowest income tax rate in any EU country with 10% (Vassiliou, 2013). This secured the role of Cyprus as a very lucrative destination to place business, investments and capital for corporations and individuals from EU countries, and a strategic gateway to the European markets for outsiders.

According to Gassner (2003, p. 26) the new tax system would in many cases be more attractive for International business companies than the old. This is due to the fact that non-residents of Cyprus would be subject to no withholding tax on

dividends and interests, would be exempt from tax on foreign dividends and profits from permanent establishments abroad, would be able to offset foreign losses against profits in Cyprus, in addition to the already mentioned very low tax rate. This would make the Cypriot tax regime amongst the most lightly taxed in the world for instance for holding companies.

Shipping

During the EU accession negotiations, questions were raised from the EU concerning the shipping tax regime in Cyprus. According to Savvas Savvides, who was a central participant of the tax reform in Cyprus, the EU recognised that the tax regime in Cyprus was not according to EU law. The tax benefits that Cyprus offered for registering shipping business amounted to this sector being practically untaxed in Cyprus. Still, the EU allowed Cyprus to retain their very competitive framework for the shipping industry. This was basically an allowance, due to the importance of shipping business to the economy in Cyprus, even though it was considered to violate the principles of EU tax law.

Merchant shipping grew in importance for the economy of Cyprus since they first introduced ‘tax free’ laws for the sector in 1963, and over time Cyprus has grown into one of the largest ship registries in the world. The merchant shipping regime was revised in 2010 with the arrival of a new directive from the EU.

Cyprus and the OECD Global Forum process

The OECD, under the auspice of the G20, established the so-called Global Forum Transparency and Exchange of Information for Tax Purposes in 2000 for both OECD and non-OECD members. The Global Forum carries out monitoring and peer-reviews on how well the members fulfil the standards of exchange of information as described in the OECD Model Agreement on Exchange of Information on Tax Matters from 2002 (OECD, 2012, p. 5).

All members get reviewed in the Global Forum process, and the peer reviews are carried out in two phases. The first phase is a review of the legal and regulatory framework, and the second phase is a review of implementation. Cyprus exchanges information based on a network of 44 bilateral Double Tax Agreements as well as with EU members under several EU instruments (OECD, 2012, p. 8). The report from the phase one review of Cyprus was published in 2012, and the second phase report was published in late 2013 (OECD, 2013).

For Cyprus, a number of shortcomings were identified in the first phase of their Global Forum peer review in 2012, covering the legal aspects of their tax information exchange. One legal issue that was pointed out by the peer review was a loophole in which companies who are based and conducting business outside of Cyprus, but are incorporated in Cyprus, were exempt from the duty of keeping accounting records and underlying documentation for their company (OECD, 2012, p. 8). Another issue pointed out by the first phase OECD review was the existence of unidentified owners through the use of bearer shares (OECD, 2012, p. 33). A third was that the use of trust structures of ownership, which is quite widespread in Cyprus, allows for concealment of the identity of beneficiaries through the use of Cyprus trusts. The accounting and 'book-holding' requirements of trusts were also identified as unclear under Cypriot law (OECD, 2012, p. 39). The availability of bearer shares, corporations which lack company accounts and concealed ownership identities through the use of trusts are all instruments that can be used deliberately in order to obtain secrecy for either tax avoidance or money laundering purposes. Therefore, these instruments arguably provided the Cyprus legal system with certain 'financial secrecy jurisdiction capabilities'.

Cyprus – economy after EU accession and the Financial Crisis

The years following the EU accession in 2004 represented a period of economic growth in Cyprus, with real growth in GDP averaging above 4% in the years 2004 to 2008. In this period Cyprus outperformed the average growth in both the EU and the Euro-area countries every year (Eurostat, 2013). International business, finance and professional services were the major drivers of this economic growth. Professional services include lawyers and accountants catering the large amount of international business incorporated in Cyprus. The professional services sector, already large, have seen growth following the EU accession, both in terms of jobs and contribution to the economy. Between 2001 and 2011 the number employed in this sector increased from 26,000 to 35,300, contributing 9.1% of total employment in Cyprus in 2011 (Mullen and Theodotou, 2012, p. 13). The professional service sector, particularly since the beginning of the financial crisis, was almost the only sector creating new graduate level jobs in Cyprus. That young Cypriots overwhelmingly sought out career opportunities in the business and professional service sector is evident from the recent statistics of fields of study of Cypriot graduate students. More than 40% of students in 2010 were

enrolled or graduated within the field of business administration as is shown in table 5.1 on page 35. This number is the highest in the Euro area (Eurostat, 2012). The importance of the international business and finance sector is sharpened by the fact that in the period between 2001 and 2011, jobs in tourism, historically an important source of jobs in Cyprus, declined from 19,600 to 17,900.

The Cypriot economy weathered the first wave of the international financial crisis rather well. But by 2009 growth in the economy of Cyprus ground to a halt, and dipped into recession. Among the smaller countries, Cyprus, together with Malta, stood out as being the countries in the Eurozone with greatest increase of debt issuance compared to GDP in 2009 (Broeck and Guscina, 2011). This year also saw Cyprus run its largest current account deficit. Government debt to GDP sharply increased after 2008. This same period saw the two largest banks, Cyprus Popular Bank (Laiki) and Bank of Cyprus, increasing their exposure to Greek debt even as Greek bonds were being dropped by the financial institutions of most other EU countries. In December 2010, a stress test by the European Banking Authority revealed that the two largest banks, Bank of Cyprus and Laiki, had a combined 30 billion euros worth of outstanding loans in Greece. Much of this, 2.4 billion and 3.4 billion of Bank of Cyprus and Laiki respectively, was Greek government debt.

In an effort to rescue Greece from their sovereign debt crisis, a write down in the nominal value, a so-called debt haircut, was imposed on holders of Greek government bonds in October 2011. For Laiki this write-down was large enough to wipe off more than their 3.2 bn euros of capital, while Bank of Cyprus lost 75% of their capital at the stroke of a pen. This blow to the two largest banks had a detrimental effect, both economically and politically, on Cyprus. The decision cost Cypriot banks roughly 25% of the country's GDP. The Cypriot government was unable to raise the money needed by the banks on the island, and the government also needed new loans to fund its budget deficit and to refinance maturing debt. By mid-2011 Cyprus had been effectively shut out of international credit markets, and it became inevitable for the Cypriot authorities to ask for outside assistance (Der Spiegel, 2012a).

That outside assistance first came as a 2,5 bn euro loan from Russia, called "a friendly agreement with no strings attached" by the Cypriot finance minister at the time. However, Cyprus soon needed additional assistance, and Russia was not willing to carry the weight of financing Cyprus on their own. Cyprus was left with the only option of applying for a program

under the European Stability Mechanism (ESM), which they did in June 2012. The application meant that Cyprus would start negotiating about the terms of a bailout with the so-called Troika consisting of the ECB, the IMF and the EC negotiating on behalf of a group of Eurozone creditor countries (Financial Times, 2012).

2013 Bank Crisis and 'bailout' negotiations

The nature of EU- Cyprus relations shifted fundamentally as Cyprus was forced to apply for support through a programme (often referred to as a bail-out) under the European Stability Mechanism. Finding a solution would prove more difficult than many in Cyprus had hoped for. First, the estimates for the amount needed to bail Cyprus out were revised upwards after the in-principle understanding was made in November. By January, the need of funds was estimated around 11 billion euros, up from an estimate of 9 billion some months earlier (Business Insider, 2013). Second, and perhaps more importantly, was the strong resistance to a Cyprus deal from Germany.

German resistance and money laundering allegations

In Germany, many were opposed to the idea of bailing out a country that had experienced a sustained period of growth based on being a 'tax haven' or haven for 'black money'. An intelligence report from the German Intelligence (Bundesnachrichtendienst - BND) was leaked to Der Spiegel, warning that a bailout of Cyprus would in effect be a bailout for Russian oligarchs (Der Spiegel, 2012b). The idea of using money from German taxpayers to save the wealth of Russian oligarchs infuriated the German public, offended Cypriots and became an important source of mutual distrust between Germany and Cyprus during the remainder of the Troika negotiation process.

For Cyprus, the allegations were not unprecedented. The reputation as a money laundering haven has followed Cyprus since revelations that former Yugoslav President Slobodan Milosevic laundered hundreds of millions of dollars through bank accounts and front companies in Cyprus in the 1990s (Working and Chernyakova, 2002). Milosevic used front companies and offshore bank accounts in Cyprus to avoid the international embargo and buy military equipment that were used in the wars in Bosnia and Kosovo.

By 2012 however, Cypriot officials rejected such characterisations and said that they ignored the substantial reforms introduced since EU accession.

According to the longtime head of Cyprus's anti-moneylaundering agency, Eva Rossidou-Papakyriacou; "Cyprus is doing a lot more than other countries [to combat illegal financial activity]" (Wall Street Journal, 2013). Most Cypriots saw being a tax haven or money laundering haven as a thing of the past (Vassiliou, 2013). This was backed up from the Cypriot side with reference to a number of assessment reports from the European anti-money laundering monitoring agency, MONEYVAL, in which Cyprus was found to have an adequate regulatory framework for anti-money laundering (Vassiliou, 2013).

A moment of unusual scrutiny on financial transparency: Evaluations prior to European Stability Mechanism programme

During European Stability Mechanism (ESM) programme negotiations, the issue of whether Cyprus was adequately implementing their anti-money laundering laws had become a central part of the debate surrounding the bailout. Cyprus agreed to let Moneyval and an auditing company, Deloitte, do an assessment of the implementation of anti-money laundering measures in Cyprus banks and government institutions. In addition, the OECD 'Global Forum on Transparency and Exchange of Information for Tax Purposes' had rolled out the second part of Cyprus' peer review assessment some months before, which would also investigate the implementation aspects of whether Cyprus was effectively exchanging up-to-date and reliable information for tax purposes with their tax treaty partners.

Finished in late April 2013, a summarised version of the confidential Moneyval report was immediately leaked to the press upon completion. The report, conducted on six Cypriot credit institutions, was quite damning towards how the anti-money laundering regulations of finance institutions in Cyprus had been implemented, and stated that "findings significantly revise its previous, more favourable assessment of Cyprus AML system"(Moneyval and Deloitte, 2013, p. 1).

According to the report "the institutions included in the sample did not appear to uphold a suitable degree of accuracy in gathering and documenting relevant information from customers, and therefore were not consistently in a position to understand the purpose of the account, define the customers business economic profile and evaluate the expected pattern and level of transactions."(Moneyval and Deloitte, 2013)

The report assessed a sample of 390 customers, of

which the top 180 depositors and top 90 borrowers in Cypriot banks were included, in addition to 90 randomly selected customers. Approximately 10% of the customers in the sample were 'politically exposed persons' (PEPs), which the banks had not detected or flagged'. In one sampled bank, 58% of the customers were identified as 'high risk customers' by the audit. When investigating the identity of depositors, 27% of client files had inaccurate information on who was the beneficial owner of the account. Around 90 percent of the top depositors and borrowers included in the sample were legal persons such as trusts or companies, and 70% of the cases with complex ownership structures used nominee shareholders and an average of three layers between the stated bank customer and the beneficial owner of the account. In only 9% of these instances was the identity of the beneficial owner independently verified by the bank or a third party. In the four years between 2008 and 2012, the six credit institutions had only conducted four internal investigations for possible money laundering (Moneyval and Deloitte, 2013, p. 3). In terms of filing suspicious transaction reports, no customers from the sample were reported to the Financial Intelligence Unit between 2008 and 2010, one was filed in 2011 a few in 2012. When reviewing transaction logs, the audit found 29 potentially suspicious transactions during the past 12 months alone, none of which had been identified as deserving further scrutiny or potential reporting by Cypriot banks (Moneyval and Deloitte, 2013, p. 4). In addition, the assessment noted the large backlog of registration of documents at the Company Registrar, and that the Registrar generally did not follow up when companies failed to submit annual returns or financial statements (Moneyval and Deloitte, 2013, p. 4). To sum up, the report found that "while identifying no regulatory weaknesses, both reports suggest that there are substantial shortcomings in the implementation, by banks, of AML preventive measures." (Moneyval and Deloitte, 2013, p. 4)

The Global Forum assessment, while being published some months after negotiations ended, complement the picture drawn up by the Moneyval report. In sum, it found Cyprus to be non-compliant on the implementation of its regulatory framework on transparency and exchange of information for tax purposes. Key aspects of tax information exchange partly overlap with the above mentioned anti-money laundering framework and includes: the ability to access up-to-date annual returns from a company register; access to financial information from third parties such as banks and access to the beneficial ownership behind companies and trusts. The OECD assessment found that between 2008 and 2012, on

average only 23% of companies filed annual returns (OECD, 2013, p. 36), and over half are not filed even a year after their deadline. In such cases, Cypriot authorities could sanction against companies for failing to comply with the tax legislation by imposing a yearly fine of EUR 100 (OECD, 2013, p. 37). The report states that "The low compliance rate of filing annual returns with the Registrar may have resulted in Cyprus not exchanging up-to-date information, since this is the primary source used by Cypriot authorities for obtaining ownership information on companies and partnerships" (OECD, 2013, p. 8). In terms of how the authorities had handled requests for information, fifteen countries made a total of 650 requests between 2008 and 2012, of which half received information, usually after long delays, while the others either received no or incomplete information (OECD, 2013, p. 48). Although having well-designed legal frameworks that were in line with international standard both for anti-money laundering and for sharing information for tax purposes, Cyprus was not actually implementing these through administrative and regulatory practices, and thereby leaving their laws on these policy areas largely ineffective.

European Stability Mechanism Programme measures on tax and towards increased financial transparency

The taxation policies included in the ESM programme included: increased taxation on property; increase in excise duties on alcohol, tobacco and petrol; a gradual 2% increase in value added tax (VAT); increased withholding tax on interest; the implementation of a bank levy on consumer deposits; and an increased corporate tax rate from 10% to 12.5% (European Commission, 2013c, pp. 45-48). In addition, the Cypriot authorities also committed to start work on a comprehensive tax reform plan, "aiming to improve the effectiveness and efficiency of tax collection and administration for implementation as of the budget year 2014 " (European Commission, 2013c, p. 87). The low withholding tax on interest and a low corporate tax rate has both contributed to making Cyprus an attractive place for international business and finance in the past, and even after the increase these tax rates will remain amongst the lowest in the EU (i.e. on level with the corporate tax rate in Ireland which at the time was also 12,5%). Fundamentally changing the tax structure of Cyprus was neither in the objective of the Commission, the ECB nor the IMF, and the ESM programme did not alter the fact that the Cyprus tax regime is very favourable for international business (European Commission, 2013a).

“In 2012 and 2013, Cyprus made a number of changes to its legal and regulatory framework and practice to increase transparency and further comply with the international standard on transparency and exchange of information for tax purposes.”(OECD, 2013, p. 16)

The Cyprus ESM programme included an action plan containing a number of measures aimed at increasing financial transparency. The MOU also makes a direct reference to the above mentioned Moneyval-report, and states that the recommendations of said report will “be implemented without further delay” (European Commission, 2013c, p. 45). Below are some of the main elements in the financial transparency measures included as a condition to receiving the ESM programme loans:

- Cyprus, under the agreement with the Troika, must change their laws to “enable the provision of the widest possible range of cooperation to foreign counterparts (including with regard to the laundering of the proceeds of tax crimes involving fraudulent activity)”(European Commission, 2013c, p. 72). The agreement involved specific measures to reform the work of the financial intelligence unit and enhancing customer due-diligence and suspicious-transaction reporting procedures.
- Cyprus also agreed to address the concerns that corporations and trusts in Cyprus were misused for tax evasion and financial secrecy, and agreed to an “action plan on entity transparency to revise the legal framework and ensure its dutiful implementation, so that adequate, accurate and timely information on the beneficial ownership of Cypriot legal persons and arrangements can be provided to foreign counterparts in response to requests related to money laundering and tax matters” (European Commission, 2013c, p. 72).
- As a part of the action plan Cypriot authorities agreed to promptly revise relevant pieces of legislation, including, inter alia, the Trust and Company Services Provider law and the Anti-Money Laundering law (...) in addition, directives and circulars issued by supervisory authorities (CBC, Cyprus Bar Association, and Institute of Certified Public Accountants of Cyprus) will be revised to lay down clear implementing procedures that are in line with relevant legislation and international standards” (European Commission, 2013c, p. 72).
- Furthermore, Cypriot authorities agreed to “establish trust registers with the supervisory authorities and launch a third-party assessment of the functioning of the Registrar of companies. The trust registers will be for all trusts established under

Cyprus law, will be kept by the relevant supervisory authorities in order to enable them to carry out their duties, and will contain the name of the trust and the name and address of the trustee” (European Commission, 2013c, p. 72).

- The MOU also commits Cyprus to “implement the recommendations put forward in the in-depth review of Cyprus’ legal and regulatory framework under the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes and commit to address any shortcomings to be identified in the forthcoming evaluation of implementation issues” (European Commission, 2013c, p. 89).

The MOU included specific deadlines for each of the points above, with implementation of the measures in the MOU being a conditionality for the release of tranches of the ESM programme financing between 2013 and 2016, under close monitoring by the Commission and the IMF. In combination, these changes represented at least a comprehensive revamp of taxation and transparency policies comparable to the tax reform prior to EU accession.

“After the storm”

Cyprus has since 2013 restructured and recapitalised its banks, which are now about half the size they were before the crisis. Cyprus has also taken measures to improve financial regulation and supervision according to the ESM - agreement. This has included a reform of their company registrar and measures to improve AML supervision. Its fiscal deficit has shrunk, and the public debt is currently considered sustainable. It has pushed through a long list of reforms in areas such as wage policies, public administration, services, and in its legal framework.

Cyprus has been able to gradually return to the bond market. The ESM disbursed €6.3 billion in loans, meaning that €3,7 billion of the ESM package were not drawn on from Cypriot authorities. Cyprus successfully exited its programme in March of 2016. However, bringing down the level of bad loans on banks’ books is still a large challenge for Cyprus.

In October 2015, Cyprus lost its status as non-compliant by the Organization for Economic Cooperation and Development (OECD), having been found largely compliant with standards set forth by the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Cyprus initiated participation in the Automatic Exchange of Financial Information in Tax Matters in 2017, under their obligations to FATCA and the Common Reporting Standard.

For the ESM, Cyprus is being show-cased as a success story, in terms of getting the country back to sustainable debt levels, having Cyprus currently exceeding expectations in economic performance, as well as implementing a comprehensive ESM programme with generally strong compliance with program conditionality².

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Endnotes:

- 1 https://www.esm.europa.eu/sites/default/files/2016_03_31_cyprus_exit_presentation.pdf; 30.1.2018.
- 2 <https://www.imf.org/external/pubs/ft/scr/2015/cr15271.pdf>; 30.1.2018.

PART 2: CYPRUS' SECRECY SCORE

OWNERSHIP REGISTRATION

- 50% 1. Banking Secrecy
- 38% 2. Trust and Foundations Register
- 100% 3. Recorded Company Ownership
- 100% 4. Other Wealth Ownership
- 100% 5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

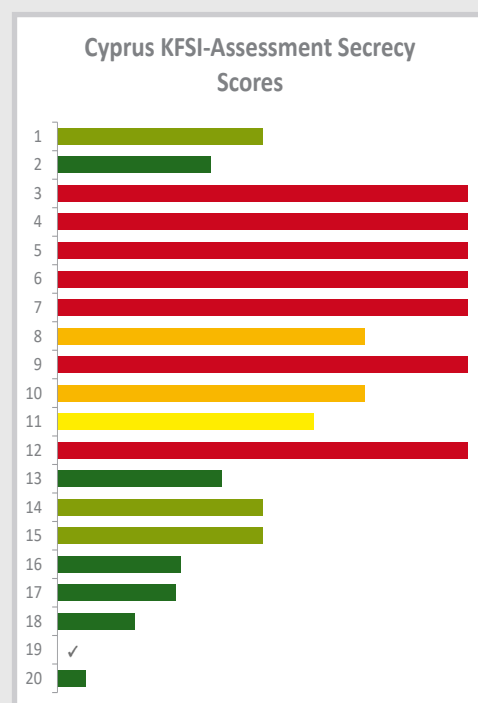
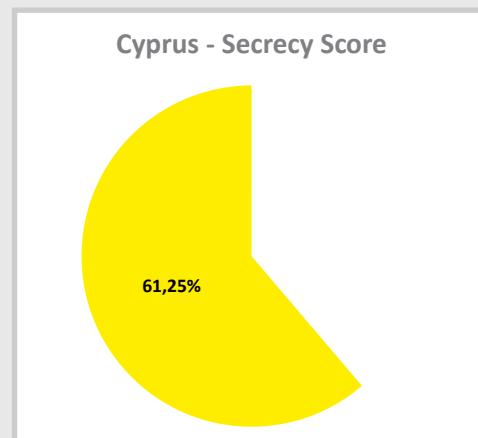
- 100% 6. Public Company Ownership
- 100% 7. Public Company Accounts
- 75% 8. Country-by-Country Reporting
- 100% 9. Corporate Tax Disclosure
- 75% 10. Legal Entity Identifier

INTEGRITY OF TAX AND FINANCIAL REGULATION

- 63% 11. Tax Administration Capacity
- 100% 12. Consistent Personal Income Tax
- 40% 13. Avoids Promoting Tax Evasion
- 50% 14. Tax Court Secrecy
- 50% 15. Harmful Structures
- 30% 16. Public Statistics

INTERNATIONAL STANDARDS AND COOPERATION

- 29% 17. Anti-Money Laundering
- 19% 18. Automatic Information Exchange
- 0% 19. Bilateral Treaties
- 7% 20. International Legal Cooperation



Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click [here](#) to see our full methodology).

The secrecy score of 61 per cent has been computed as the average score of 20 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail by clicking on the name of the indicator.

A grey tick indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 30.09.2017.

Full data on Cyprus is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.