



Putting Trust in Cyprus Business

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The sun bathed island lying in the Eastern Mediterranean sea, is considered to be an ideal holiday destination for people from colder climates. Luxury hotels, high standard tourist infrastructure and the famous Greek cuisine, is a combination you cannot resist. Even Aphrodite the Greek goddess of Love, daughter of Zeus, has chosen the shores of “Petra tou Romiou” in Paphos to come to life. But that is a legend to be told, under the summer moonlight, enjoying chilled local white wine.



“There is something wrong in paradise”

Now it’s time to talk about facts. Facts, about another field of services Cyprus is well known of: Corporate Service companies or Trust or Fiduciary services Companies, as they are usually being referred. A country with less than a million inhabitants and divided since a Turkish military invasion took place back in 1974, has managed in 2004 to be a full member of the European Union. The professional services sector in Cyprus is one of the most advanced and of high standards in Europe. The favorable tax regime, with the lowest corporate tax in the European Union (10%) and the legal, accounting and banking services and system, has earned Cyprus the title of one of the most favorite destinations around the world for saving money from taxes.

The saving procedure though has to pass through the Trust Companies. Trust companies or Corporate Service providers are nothing more than ordinary Private Companies Limited by shares. Whoever would like to do business in Cyprus has to contact one of those hundred providers in order to initiate the procedure of purchasing a Cyprus company or incorporating a new one. And that is the point where *“There’s something wrong in paradise”*.





Unfortunately, until now there is no legal framework as such, regulating the provision of corporate and trust services in Cyprus. A foreign client wishing to do business in Cyprus is coming to a “*terra incognita*”. Indirectly nevertheless, the companies which employ licensed lawyers or certified accountants, their services are being regulated by their respective supervisory bodies. The *Cyprus Bar Association* and the *Institute of Certified Public Accountants of Cyprus* respectively. Contacting a firm which employs a licensed lawyer or a certified public accountant is a level of protection and guarantee that he will be treated with an adequate standard of professionalism, expected in a member of the European Union.

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Currently it's up to the trust companies to employ qualified personnel or to train properly the existing in order for them to be able to meet both the administration, the academic and legal knowledge required by the day to day demanding needs of an international client in the context of the Cyprus corporate governance environment. A “*nominee*” must be able to acknowledge the responsibilities arising out of the Cyprus Companies Law undertaken, by accepting the office of director, secretary or a shareholder of a Cyprus company.

Cyprus being a member of European Union, has adopted several European Directives and has implemented several important legislations for the prevention and suspension of money laundering activities, which indirectly again, has forced corporate service providers to raise the level of services provided to their clients, by establishing internal procedures, regulations, policies and manuals regulating their relationship between their clients and the trust company. Cyprus Banking institutions have contributed to this task by accepting as introducers for opening bank accounts only licensed lawyers or accountants.



A fact remains though, that there are many “trust companies” which provide everything else but trust. Whoever is of the opinion that he can offer corporate services, may freely incorporate a private company limited by shares and start offering those “services” through a shiny website promising to save you money, tempting you to contact them by proposing suspiciously low prices for their “*high caliber of professional services*” and many other ancient Greek legends.

A supervisory body is implemented which will be granted the authority to award such corporate services licenses or to revoke them if they believe at their discretion, that those criteria are set by the Law are not met at all times. The supervisory body will be the Cyprus Securities and Exchange Commission.



The foggy landscape of the provision of corporate services is about to change

The foggy landscape of the provision of corporate services, fortunately is about to change (we hope in 2012) through a new legislation which is under scrutiny at the moment by the members of the Cyprus parliament. The new legislative initiative will establish a licensing procedure under which each private company which wishes to offer such services must meet certain criteria both in their internal procedures and to the qualifications of the people that are going to manage and work for that type of companies. Professional and academic background and experience is required along with “fit and proper” prerequisites. An appointment of either an internal or external associate licensed lawyer is applied by the provisions of the new Law, by the fiduciary companies.

The new Law implements various obligations by the Corporate Service providers in order to safeguard that the money kept by the providers on behalf of their clients will be treated independently from their own funds and will be available at any time by the client. Various organizational requirements are being introduced to protect the assets kept by the trust companies on behalf and on account of their clients. The Commission will be able to impose monetary penalties along with the personal criminal liability of the directors of such companies who will violate the provisions of the Law.

**Corporate
Services
Providers**



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According to the present situation, if a nominee director who will not act professionally and according to the trust agreement or the service agreement he has with the client, what he is risking is his reputation and a possible civil action for damages, caused by violating his fiduciary duty to the company. In case nevertheless an Ultimate Beneficial Owner of a Cyprus company committed a criminal offence the nominee director will not be blamed and will be protected by the Indemnity Agreement signed between them. That Agreement will be valid if the nominee was in good faith and was not aware of the criminal activities of the Ultimate Beneficial Owner.

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An encouraging private initiative has taken place in November of 2011 by some Corporate Services providers establishing a private association named “*Cyprus Fiduciary Association*” in an effort to apply some standards in the provision of such services in Cyprus. Even though the association is very young with limited number of members, is an initiative worth mentioned until the new Law will be in force.

It is without any doubt that the new legislation will create a new scene in the field of Corporate Services in Cyprus adding a high level of protection to the perspective international clients and will also increase the feeling of trust and safety for the services rendered by Cypriot professionals in the sector of Corporate and Fiduciary services.



At the time being the “*know your client*” duty can be reversed and paraphrased as “*know your Corporate Service Provider*”. Due diligence can work beneficially both ways, for the trust company and for the client.

In the meantime a great CombiNation of leisure and business can be achieved by visiting Cyprus. Know Cyprus, know us.