

Comments are welcome: please provide comments to [cigna@ebrd.com](mailto:cigna@ebrd.com)



**European Bank**  
for Reconstruction and Development

## **Corporate Governance in Transition Economies**

### **Cyprus Country Report**

**May 2017**

*Prepared by:*  
**Gian Piero Cigna**  
**Pavle Djuric**

*With the assistance of:*  
**Nestor Advisors**

This Report does not constitute legal advice. Readers are advised to seek appropriate legal advice before entering into any transaction, making any determination or taking any action related to matters discussed herein.

#### **Copyright**

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the copyright holder. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature. Applications for such permission should be addressed to [permissions@ebrd.com](mailto:permissions@ebrd.com).

#### **Disclaimer**

The contents of this publication reflect the opinions of individual authors and do not necessarily reflect the views of the EBRD.

The report is based on information available at the end of April 2015.

If you believe that the information has changed or is incorrect, please contact Gian Piero Cigna at [cignag@ebrd.com](mailto:cignag@ebrd.com)

\* \* \*

The team is grateful for the assistance provided by all parties involved in this exercise.

In particular, the team would like to acknowledge the precious assistance offered by the law firms Harneys Partner, Neocleous Law firm, Deloitte and PWC.

Finally, the Legal Transition team would like to express its thanks and appreciation to Gabrielle Cordeiro and David Risser from Nestor Advisors Ltd for the assistance provided in relation to the analysis of countries and the drafting of the reports.

This Report – along with all other country reports prepared within this initiative – is available at: <http://www.ebrd.com/what-we-do/sectors/legal-reform/corporate-governance/sector-assessment.html>

## **Foreword**

As part of its Legal Transition Programme, the European Bank for Reconstruction and Development (“EBRD”) has been assessing the state of legal transition in its countries of operations. These assessments provide an analysis of the progress of reform and identify gaps and future reform needs, as well as strengths and opportunities.

In 2012, the Legal Transition team within the EBRD Office of the General Counsel (LTT) developed with the Assistance of Nestor Advisors a methodology for assessing corporate governance frameworks and the governance practices in the EBRD countries of operations. This assessment was implemented in 2014-2015 (the “Assessment”).

The Assessment aims at measuring the state of play (status, gaps between local laws/regulations and international standards, effectiveness of implementation) in the area of corporate governance.

The Assessment is meant to provide for (i) a comparative analysis of both the quality and effectiveness of national corporate governance legislation (including voluntary codes); (ii) a basis to assess key corporate governance practices of companies against the national legislation; (iii) an understanding whether the legal framework is coupled with proper enforcement mechanisms (e.g., sanctions) and/or with authorities able to ensure proper implementation; (iv) a support to highlight which are the major weaknesses that should be tackled by companies and legislators for improving the national corporate governance framework; and (v) a tool which will enable the EBRD to establish “reference points” enabling comparison across countries.

This country report is part of a series of 34 country reports. A general report synthesising all countries will close the Assessment.

## Methodology

This Assessment is based on a methodology designed to measure the quality of legislation in relation to best practices requirements and the effectiveness of its implementation as evidenced by companies' disclosure, also taking into consideration the capacity of the institutional framework (e.g., courts, regulators) to sustain quality governance. The analytical grid developed for assessing the governance framework is based on international recognised best-practice benchmarks (e.g., OECD Corporate Governance Principles, Development Financial Institutions, EBRD, IFC and World Bank ROSC governance methodologies). The methodology is applied identically across all the countries reviewed. The process for gathering, analysing and reporting information is applied identically for each of the countries assessed, which allows comparing countries to each other across a long a set of benchmarking points.

For the purpose of the Assessment, the corporate governance framework and the practices were divided in five key areas: (i) Structure and Functioning of the Board; (ii) Transparency and Disclosure of company information; (iii) Internal Control; (iv) Rights of Shareholders; and (v) Stakeholders and Institutions. Each of these key areas is further divided in sections (for instance, the area "Structure and Functioning of the Board" is divided in five sections: Board composition; Gender diversity at the board; Independent directors; Board effectiveness; and Responsibilities of the board). Each section is further divided in subsections (for instance, the section "Independent Directors" is divided in three subsections: "Requirement to have independent directors"; "Definition of Independence"; and "Disclosed practices").

The assessment started by sending a questionnaire to law firms, audit firms, national regulator(s), ten largest (listed) companies, and stock exchange(s) in each country. Questions were different according to the respondents, which were asked to provide information on the legislation and on how they believe the legislation is implemented.

Responses were assigned to the corresponding subsection(s) and validated by the EBRD corporate governance specialists by looking at the applicable framework and at the disclosure offered by the ten largest (listed) companies in each country. In this respect, the working hypothesis was that the ten largest listed companies are those offering the best disclosure in each country. As such, we presumed that when certain practices were not disclosed by them, they were unlikely to be disclosed by smaller or unlisted companies. The ten largest companies were identified according to their market capitalisation. When a country did not have a stock exchange, there were less than ten listed issuers or there were no data on capitalisation of issuers, the ten largest companies were identified according to their revenues and size of the labour force. In case the largest companies were mostly of one sector (e.g., financial institutions), then the sample of ten companies was corrected to reflect other sectors of the economy.

The validation of responses was undertaken by the corporate governance specialists within the Legal Transition Team through desktop research. This research was conducted both on legislation and on the practices disclosed by the largest (listed) companies (e.g., companies' websites, annual reports, stock exchanges database etc.). In addition, the relevant reports by international financial institutions (e.g., IMF, World Bank, IFC, Transparency International, etc.) were analysed and taken into consideration. Answers received by respondents that were not grounded by specific references to legislation or consistent with the disclosed practices were not taken into consideration.

Following the validation process, each subsection was compiled by adding specific references to legislation and practices. Conclusions were then formulated for each subsection, each rated as per their adherence to international governance standards. The score ranges from 1 (very weak) to 5 (strong). The rating for each section was then calculated by averaging the ratings of the subsections.

Because understanding corporate governance requires a “holistic perspective”, where each component needs to have a place in the overall picture – pretty much like a puzzle - in case one of the subsection was rated “weak” or “very weak”, the resulting average was decreased by 0.2; in case more than one subsection was rated “weak” or “very weak”, the resulting average was decreased by 0.5. This is because if just one component is not fitting well with the others, then all others are weakened. Similarly, the overall strength diminishes if there are more weak components.

Conversely, in order for the framework to be strong, all components need to be well fitting with each other. Hence, in case all subsections were scored “moderately strong” or “strong”, then the resulting average was increased by 0.5. However, this “positive” adjustment was used with some care as the assessment looked at the top ten largest companies in the country, hence findings tended to be often overly optimistic.

Key areas were then rated according to the same criteria.

The ratings are presented through the colours detailed in the box below and they demonstrate the adequacy or need of reform in respect to each governance area and section.

#### **Ratings:**

**“Strong to very strong” (DARK GREEN)** - The corporate governance framework / related practices of companies are fit-for-purpose and consistent with best practice.

**“Moderately strong” (LIGHT GREEN)** - Most of the corporate governance framework / related practices of companies are fit-for-purpose but further reform is needed on some aspects.

**“Fair” (YELLOW)** - The corporate governance framework / related practices of companies present some elements of good practice, but there are a few critical issues suggesting that overall the system should be assessed with a view of reform.

**“Weak” (ORANGE)** - The corporate governance framework / related practices of companies may present few elements of good practice, but overall the system is in need of reform.

**“Very weak” (RED)** - The corporate governance framework / related practices of companies present significant risks and the system is in need of significant reform.

We believe corporate governance cannot be captured and measured simply by numerical values. Hence, alongside the “quantitative” assessment obtained according to the methodology described above, a “qualitative” assessment was also undertaken, by classifying our findings for each section as “strengths” and “weaknesses”. Because understanding corporate governance requires a “holistic perspective”, when the “quantitative” assessment was finalised, the assessment team compared it with the “qualitative” assessment, and when any inconsistency (i.e. material weaknesses or strengths) was noticed, the average scores of the sections were adjusted by up to  $\pm 0.5$ .

A preliminary version of the Assessment was made public for consultation. The comments and corrections received during the process were analysed by the corporate governance specialists. When confirmed, the corrections were reflected in the final ratings and in this Assessment.

## Overview

### **Legislative framework:**

The primary sources of corporate governance legislation in Cyprus are the Companies Law, the Transparency Law, the Investment Services and Activities and Regulated Markets Law, the Auditors and Statutory Audits of Annual and Consolidated Accounts Law, the Business of Credit Institutions Laws and the Market Manipulation Law. It is also worth mentioning the [CSE Circulars on Corporate Governance](#) issued by the Cyprus Stock Exchange and the [Directives, Regulations and Guidelines](#) which govern the operation of banks issued by the Central Bank of Cyprus (in particular, the 2014 Directive on Governance and Management Arrangements in Credit Institutions, the 2014 Directive on the Assessment of the Fitness and Probity of Members of the Management Body and Managers of Authorised Credit Institutions and the Directives on a Framework of Principles of Operation and Criteria of Assessment of Banks' Organisational Structure, Internal Governance and Internal Control Systems).

In 2002, the Cyprus Stock Exchange (CSE) Council issued the [Code of Corporate Governance for the Cyprus Stock Exchange](#) (the CSE Code), which was most recently reviewed in 2014. The [Listing Rules of the Cyprus Stock Exchange](#) require listed companies to adopt the CSE Code under the so-called “*comply or explain*” approach. Companies listed on the Main Market are under a stricter obligation: they are required to adhere to the Code. In case of non-compliance with any of the Code's provision, companies must inform the CSE. If the CSE is not satisfied by the explanations provided, it will grant a grace period for the company to comply, and thereafter it might take action, including the downgrading or delisting of the company.

### **Structure and functioning of the board**

Companies are organised under a one-tier board system. The CSE Code recommends that the roles of the chair of the board and CEO should not be combined. In practice – albeit there is no legal prohibition on this matter – it seems that this recommendation is generally complied with.

Boards tend to be relatively well sized (with 9.2 members on average) and evidence has shown that small boards tend to perform better, provided that they have the right mix of skills and support (e.g., corporate secretary). This seems to be the case in Cyprus.

Gender diversity at the board is limited and legal entities can serve as board members, a solution which raises some doubts.

There are no requirements as to directors' qualifications and independence stemming from the Company Law. The banking law provides for “*fit and proper*” requirements for board members, whilst the CSE Code provides that boards should include a sufficient number of non-executive directors with sufficient abilities, knowledge and experience, so that their opinions carry significant weight in the board's decision-making.

Banks are required to have a majority of independent directors at the board. The CSE Code provides the same recommendation for larger companies. It appears that at least nine of the ten largest listed companies (two are banks) disclose having independent board members.

The banking framework clearly assigns to the board its key functions. Such a requirement is not clearly spelled out for companies. The CSE Code includes some recommendations to fill this gap, but it does not clearly assign to the board the responsibility to determine the company's risk profile/appetite.

Public interest entities are required to establish audit committees, composed of at least two non-executive board members. At least one member of the audit committee must be independent and have competence in accounting or auditing matters. Seven among the ten largest listed companies disclose having an audit committee in place.

At least nine out of the ten largest listed companies provide some information on their board activities in their annual reports and seven provide information on the number of board meetings.

Banks are required to undertake board evaluation, while for companies the CSE Code is silent on this matter. In practice, it appears that this exercise is undertaken only by banks. Companies are required to appoint a corporate secretary. This seems a well-established practice.

Fiduciary duties are regulated by law; however, it appears that the courts have not developed clear standards and interpretation of directors' duties. Liability of directors and conflicts of interest are regulated by law.

### ***Transparency and Disclosure***

Companies are required to publish their annual reports which should include financial and non-financial information. This requirement appears well implemented. Quality of non-financial information is generally good; however, only seven of the ten largest listed companies published their reports in English.

In accordance with the CSE Code and financial markets regulations, every listed company has an obligation to include a report on corporate governance within the annual report. The company should confirm in the second part of the report whether it complies with the CSE Code and, in the event that it does not, it should provide explanations. At least nine companies in our sample published a corporate governance section as part of their annual report or filed separate corporate governance reports. However, the statements do not always describe in details whether the companies comply or explain with the CSE Code. Often explanations are very formalistic and not that meaningful.

All ten companies in our sample disclose the names of their board members and at least seven disclose their board members' qualifications. All companies also disclose information on their major shareholders, capital, number of shares, and major transactions involving the companies' shares.

Financial statements must be prepared in line with IFRS and made public. All ten largest listed companies comply with this requirement.

Companies are required by law to have their financial statements audited by independent auditors, and all large companies in our sample comply with this requirement. Provision of non-auditing services by the external auditor is allowed, but subject to an "*independence test*" by the audit committee. It appears that at least four companies disclose receiving non-audit services by their external auditors.

### ***Internal Control***

Companies are recommended to have an internal audit function in place. Banks are required to establish an internal audit department, reporting directly to the board, via the audit committee. Additionally, banks should have the adequacy and effectiveness of their internal control framework assessed every three years by an independent external auditor. At least eight companies in our sample (two are banks) disclose having an internal audit function in place. Banks are required by law to establish a standalone compliance function and according to our respondents banks duly comply with this requirement.

Public interest entities are required to set up audit committees, which should be composed of at least two (three in case of banks) non-executive board members; at least one member must be independent and have competence in accounting or auditing matters. The CSE Code recommends that the majority of committee members should be independent. The chair of the committee should have experience in accounting or audit. Seven out of the largest ten listed companies disclose having an audit committee in place. At least six of them disclose the number of audit committee's meetings, which ranges from 4 meetings to 31 meetings during the previous year.

Provision of non-auditing services by the external auditors is allowed, but subject to an "*independence test*" by the audit committee. In practice, at least seven companies disclose information (yes/no) on the provision of non-audit services by their external auditors. At least four

companies disclosed receiving non-audit services simultaneously with audit. Audit partners are required to rotate every seven years. Rotation does not seem to apply to audit firms.

Related party transactions and conflict of interest are regulated by law and it seems that extensive case law exists on these issues. There is no requirement to have a code of ethics, and whistle-blowing legislation is not comprehensive.

### ***Rights of Shareholders***

Shareholders representing at least 10% of the share capital (5% for listed companies) are entitled to call a general shareholders' meeting (GSM). In listed companies, shareholders representing at least 5% of the capital are allowed to add items to the GSM agenda. The law allows shareholders to submit questions in advance or at the GSM. The Companies Law allows shareholders to participate at the GSM in person or *in absentia* on the basis of a power of attorney. The law also allows postal and electronic voting.

Regulation on minority shareholders protection and shareholders' access to information seems to be comprehensive and generally in line with best practices. Cumulative voting is not provided by law.

Derivative suits are permitted by the Companies Law. This seems a well consolidated practice.

Shareholders have inspection and pre-emptive rights. The Companies Law provides that certain major corporate changes require supermajority votes at the GSM. Insider trading and self-dealing are regulated by law and appear to be enforced.

Regulation requires companies to have share registration maintained by an independent registrar. The law requires disclosure on significant shareholding variations. Shareholders agreements are enforceable and widely used in practice.

### ***Stakeholders and Institutions***

The institutional framework supporting corporate governance practices in Cyprus seems to be moderately well developed. Nevertheless, regulatory reforms could improve the transparency of its monitoring processes.

The Cyprus Stock Exchange (CSE) is the regulated market in the country. The CSE has a low market capitalization and seems to be fairly illiquid. After the 2002 stock market collapse, the CSE Council issued the Code of Corporate Governance for the Cyprus Stock Exchange (CSE Code), which was most recently reviewed in 2014.

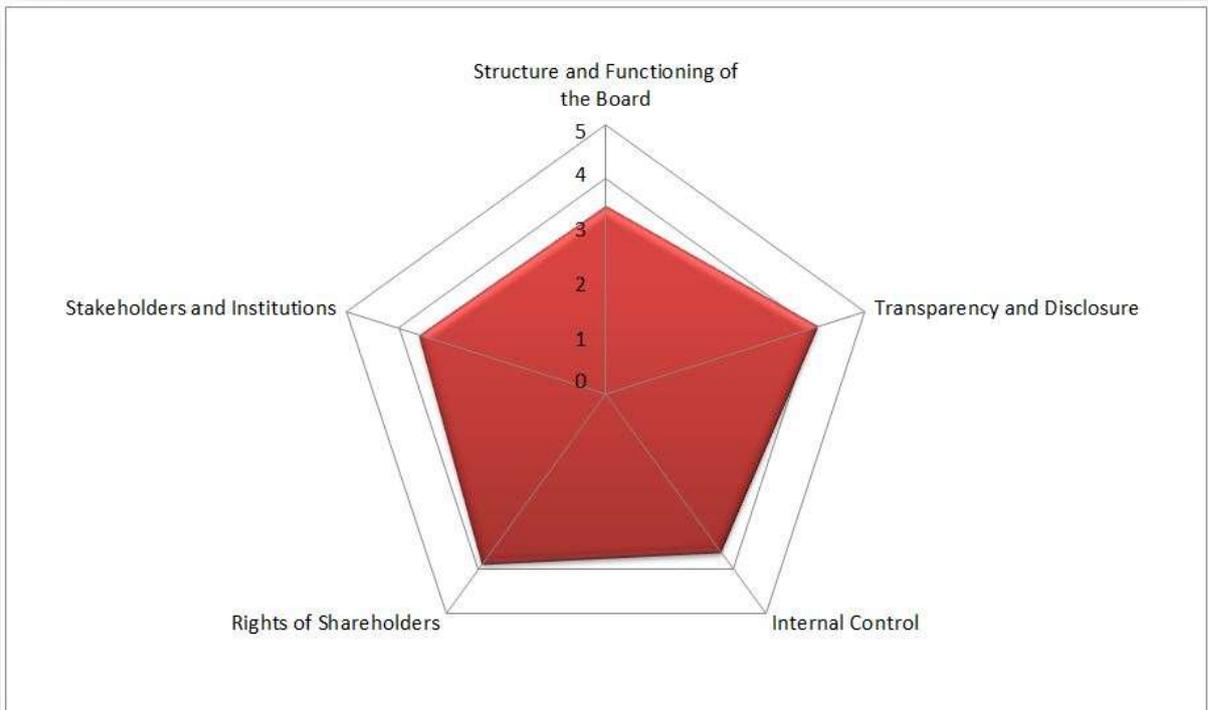
There are two listing tiers at the CSE: the Main Market Segment and the Alternative Market Segment. To be listed in the Main Market, companies must adhere to the provisions of the CSE Code. Other listed companies are required to implement the Code under a "*comply or explain*" basis. Companies failing to comply with the legislation and regulations of the CSE can be placed under the Surveillance Market Segment.

The primary bodies responsible for the CSE Code and its enforcement are the CSE and the Cyprus Securities and Exchange Commission (CYSEC). The CSE is in charge for monitoring and amending the CSE Code. Nevertheless, we have been unable to find any reports disclosing companies' levels of compliance with the CSE Code.

In its capacity as a regulator, the CYSEC issues directives with a view of regulating corporate governance in Cyprus.

It seems that there are no major inconsistencies in legislation on corporate governance. When looking at international indicators, Cyprus ranks fairly well in terms of transparency and investor protection perceptions, although its competitiveness performance is relatively poor.

## Corporate Governance Legislation and Practices in Cyprus



Source: EBRD, Corporate Governance Assessment 2016

Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in best practices and international standards (e.g., OECD Corporate Governance Principles). The fuller the 'web', the closer the corporate governance legislation and practices of the country approximates best practices.

Key: Very weak: 1 / Weak: 2 / Fair: 3 / Moderately Strong: 4 / Strong to very strong: 5

Key Areas and Rating	Strengths and Weaknesses
<p><b>1. Structure and Functioning of the Board</b> Fair</p>	<p>Companies are organised under a one-tier board system.</p> <p>The CSE Code recommends that the roles of the chair of the board and CEO should not be combined. In practice – albeit there is no legal prohibition on this matter – it seems that this recommendation is generally complied with.</p> <p>Boards tend to be relatively well sized (with 9.2 members on average), and evidence has shown that smaller boards tend to perform better, provided that they have the right mix of skills and support (e.g., corporate secretary). This seems to be the case in Cyprus.</p> <p>Gender diversity at the board is limited and legal entities can serve as board members, a solution which raises some doubts.</p> <p>There are no requirements as to directors’ qualifications and independence stemming from the Company Law. The banking law provides for “fit and proper” requirements for board members, whilst the CSE Code provides that boards should include a sufficient number of non-executive directors with sufficient abilities, knowledge and experience, so that their opinions carry significant weight in the board’s decision-making.</p> <p>Banks are required to have a majority of independent directors at the board. The CSE Code provides the same recommendation for larger companies. It appears that at least nine of the ten largest listed companies (two are banks) disclose having independent board members.</p> <p>The banking framework clearly assigns to the board its key functions. Such a requirement is not clearly spelled out for companies. The CSE Code includes some recommendations to fill this gap, but it does not clearly assign to the board the responsibility to determine the company’s risk profile/appetite.</p> <p>Public interest entities are required to establish audit committees, composed of at least two non-executive board members. At least one member of the audit committee must be independent and have competence in accounting or auditing matters. Seven among the ten largest listed companies disclose having an audit committee in place.</p> <p>At least nine out of the ten largest listed companies provide some information on their board activities in their annual reports and seven provide information on the number of board meetings.</p> <p>Banks are required to undertake board evaluation, while the CSE Code is silent on this matter. In practice, it appears that this exercise is undertaken only by banks. Companies are required to appoint a corporate secretary. This seems a well-established practice.</p> <p>Fiduciary duties are regulated by law; however, it appears that the courts have not developed clear standards and interpretation of directors’ duties. Liability of directors and conflicts of interest are regulated by law.</p>
<p><b>1.1. Board Composition</b> Fair/Moderately strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• The Listing Rules of the Cyprus Stock Exchange require listed companies to implement the Cyprus Stock Exchange Corporate Governance Code (CSE Code) under the so-called “comply or explain” approach. Companies listed on the Main Market are under a stricter compliance obligation (see below). The CSE Code recommends that the roles of chair of the board and CEO should not be exercised by the same individual. Most of the companies in our sample separate these positions.</li> <li>• The average size of the board of the ten largest listed companies is 9.2 members. We think this is a reasonable size for large companies, however research indicates that larger boards tend to be less effective.</li> <li>• The banking law provides for fit and proper requirements for board members.</li> <li>• The CSE Code provides that the board of directors should include a sufficient number of non-executive directors with sufficient abilities, knowledge and experience, so their opinions carry significant weight in the board’s decision-making. In six out of the ten largest listed companies, non-executive directors are the majority of the board.</li> <li>• The CSE Code recommends that in larger companies at least half of the board should be made of independent directors. The banking framework requires the chair and the majority of board members of banks to be independent. When looking at the companies’ disclosure provided, it appears that at least nine of the ten largest listed companies disclose having independent board members. The website of the CSE identifies, for each listed company, each non-executive member it considers to be independent. However, only in four companies (including both banks) independent directors are a majority of the board.</li> <li>• Public interest entities – which include listed companies and banks - are required to establish an audit committee. At least one member of the audit committee must be independent and have competence in accounting or auditing matters. Banks are also required to have a risk management committee. The CSE Code recommends companies to establish a nomination and a remuneration committee. It appears that at least seven out of the ten largest listed companies have an audit committee in place. The same companies disclose having a nomination and a remuneration committee, except one which does not have a remuneration committee.</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
	<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Legal entities can be board members. However, no company in our sample has any corporation in its board.</li> <li>• Only five companies in our sample disclose the composition of board committees.</li> <li>• There are no requirements as to directors' qualifications and independence stemming from the Companies Law, however the CSE Code provides some recommendations in this respect.</li> </ul>
<p><b>1.2. Gender Diversity at the Board (9.78%)</b> Very Weak</p>	<ul style="list-style-type: none"> <li>• All ten largest listed companies disclose the names of their directors; four companies count one woman, and one company counts two women amongst its board members. Among these companies, gender diversity averages 16.17%.</li> <li>• In total, there are 9 women out of 92 board members.</li> <li>• When counting all ten companies in our sample, the gender diversity in boards averages 9.78%.</li> </ul>
<p><b>1.3. Independent Directors</b> Moderately Strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• The banking framework requires the chair and the majority of board members of banks to be independent.</li> <li>• The CSE Code recommends boards of large companies, listed either on the CSE's Main Market or on the Major Projects Market or on the Shipping Companies Market, to be composed of at least 50 % of independent non-executive directors. For companies listed on other markets, non-executive directors should comprise no less than one third of the board and the majority of non-executive directors, or at least two persons, should be independent.</li> <li>• It appears that at least nine of the ten largest listed companies disclose having independent board members. In two companies (both banks) independent directors are a majority of the board (7 out of 10). One company has 4 independent members out of 7 and in one case independent directors represent half of the board. In the five other cases they form a minority. In total, the average in the nine companies is 35.52%.</li> <li>• There are at least two definitions of independence; one in the CSE Code and one in banking regulations. The presence of different definitions does not help clarity, however it should be noted that both definitions include both negative (i.e., non-affiliation) and positive (i.e., what it is expected in practice from independent directors) requirements. We think that this is the right approach.</li> <li>• Public interest entities are required to establish audit committees, composed of at least two non-executive board members. Besides, at least one member of this committee must be independent and have competence in accounting or auditing matters. The CSE Code recommends audit committees to be composed of a majority of independent directors. All members of the audit committee should have experience in accounting or audit. Six companies -out of the seven that disclose having an audit committee – have the committee made by a majority of independent directors.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Only one company in our sample appears to have described in its annual report the independence test used to ascertain on which basis independent members were considered as such.</li> </ul>
<p><b>1.4. Board Effectiveness</b> Moderately strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Banks are required to perform board evaluation and the two banks among the ten largest listed companies appear to comply with this requirement.</li> <li>• The Companies Law requires companies to have a corporate secretary and all ten listed largest companies disclose having one in place.</li> <li>• The CSE Code recommends that boards of directors meet regularly, at least six times a year, and that the activities of each committee of the board should be included in the corporate governance section of the annual report.</li> <li>• Banking regulation requires banks to have audit and risk management committees, meeting at least on a quarterly basis. It also recommends that banks establish compensation and nominations/internal governance committee. Public interest entities, including listed companies, are required to set up audit committees. Furthermore, the CSE Code recommends companies to establish three board committees: nomination, remuneration and audit committees. It appears that at least seven out of the ten largest listed companies have audit committees in place. The same companies disclose having nomination and remuneration committees.</li> <li>• At least nine out of ten largest listed companies provide some information on the board activities in their annual reports. At least seven out of ten largest listed companies provide information on the number of board meetings (ranging from 6 to 42 during the previous year) and audit committee meetings (ranging 4 to 31).</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Neither the law nor the CSE Code requires companies to conduct board evaluations. Only the two banks in our sample disclose performing board evaluations.</li> </ul>

<b>Key Areas and Rating</b>	<b>Strengths and Weaknesses</b>
<b>1.5. Responsibilities of the Board</b> Fair	<p><b>Strengths:</b></p> <ul style="list-style-type: none"><li>• By law, companies' boards are responsible for determining the overall strategy and providing management oversight. The CSE Code recommends the board to approve the company's budget.</li><li>• The banking framework assigns to the board key strategic functions and defines the board's responsibilities.</li><li>• Liability and conflicts of interest are addressed by the law (for further information, see the EC Commission's Study on Directors' Duties and Liability - <a href="http://ec.europa.eu/internal_market/company/docs/board/2013-study-reports_en.pdf">http://ec.europa.eu/internal_market/company/docs/board/2013-study-reports_en.pdf</a>).</li></ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"><li>• Fiduciary duties are regulated by law; however, it appears that the courts have not developed clear standards and interpretation of director duties.</li><li>• For companies, the law does not clearly assign to the board functions such as setting up budget and risk profile/appetite. Also the CSE Code is silent on the board's role in setting the company's risk profile.</li></ul>

Key Areas and Rating	Strengths and Weaknesses
<p><b>2. Transparency and Disclosure</b> Moderately Strong</p>	<p>Companies are required to publish their annual reports which should include financial and non-financial information. This requirement appears well implemented. Quality of non-financial information is generally good; however, only seven of the ten largest listed companies published their reports in English.</p> <p>In accordance with the CSE Code and financial markets regulations, every listed company has an obligation to include a report on corporate governance within the annual report. The company should confirm in the second part of the report whether it complies with the CSE Code and, in the event that it does not, it should provide explanations. At least nine companies in our sample published a corporate governance section as part of their annual report or filed separate corporate governance reports. However, the statements do not always describe in details whether the companies comply or explain with the CSE Code. Often explanations are very formalistic and not that meaningful.</p> <p>All ten companies in our sample disclose the names of their board members and at least seven disclose their board members' qualifications. All companies also disclose information on their major shareholders, capital, number of shares, and major transactions involving the companies' shares.</p> <p>Financial statements must be prepared in line with IFRS and made public. All ten largest listed companies comply with this requirement.</p> <p>Companies are required by law to have their financial statements audited by independent auditors, and all large companies in our sample comply with this requirement. Provision of non-auditing services by the external auditor is allowed, but subject to an "independence test" by the audit committee. It appears that at least four companies disclose receiving non-audit services by their external auditors.</p>
<p><b>2.1. Non-Financial Information Disclosure</b> Moderately strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>All listed companies are required by law to prepare annual reports containing a considerable amount of non-financial information including the board of directors' report to shareholders and a report on corporate governance. Moreover, the board should identify in the annual report each non-executive director it considers to be independent and the independent directors should sign an independence statement. All the ten largest companies comply with the requirement to disclose a board of directors' report and information on corporate governance. Three of the companies in our sample did not prepare their annual reports in English.</li> <li>The websites of the ten largest listed companies are informative and updated.</li> <li>In accordance with the CSE Code and financial markets regulations, every listed company has an obligation to include a report on corporate governance in its annual report. The company should confirm in the second part of the report whether it complies with the principles of the CSE Code and, in the event that it does not, it should give explanations as to why not. At least nine out of ten largest listed companies published a corporate governance section as part of their annual reports or filed separate corporate governance reports.</li> <li>Seven companies in our sample disclosed the directors' positions in other companies.</li> <li>All companies in our sample disclose their capital, number of shares, and major transactions involving the companies' shares.</li> <li>All ten companies in our sample disclose the names of their board members and at least seven disclose their board members' qualifications, albeit information on directors' qualification is often limited.</li> <li>Joint Stock Companies (including listed companies) are required by law to make available the minutes of the general shareholders' meeting (GSM) on their websites or to make the books containing the minutes available for inspection at the registered office of the company. All ten largest listed companies disclose this information online.</li> <li>At least seven companies in our sample disclose the composition of board committees.</li> <li>Albeit there is no requirement to have a code of ethics, at least four companies in our sample disclosed having one in place.</li> </ul> <p><b>Weakness:</b></p> <ul style="list-style-type: none"> <li>There is no legal requirement to disclose beneficial ownership. All ten largest listed companies disclose their major shareholders but – apart when the state is a shareholder – in most of cases disclosure refers to legal entities, hence we have doubt about such disclosures and whether they refer to beneficial ownership.</li> <li>The corporate governance statements disclosed by companies – albeit informative and generally comprehensive - do not always describe in details whether the companies comply or explain with the CSE Code. Often explanations are very formalistic and not that meaningful.</li> </ul>
<p><b>2.2. Financial Information Disclosure</b> Strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>Listed companies must prepare their financial statements in line with IFRS and make them public. All ten largest listed companies prepare their financial information in accordance with the IFRS.</li> </ul>

<b>Key Areas and Rating</b>	<b>Strengths and Weaknesses</b>
<p><b>2.3. Reporting to the Market and to Shareholders</b> Moderately Strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• All ten largest listed companies disclosed their annual reports. Seven companies in our sample disclosed their annual report in English.</li> <li>• There are criminal sanctions envisaged by law for those who provide false information constituting part of disclosure.</li> <li>• The minutes of the general shareholders' meeting (GSM) of all ten largest listed companies are available on their websites.</li> <li>• Issuers are required to disclose price sensitive events, and the start of insolvency and restructuring proceedings.</li> </ul> <p><b>Weakness:</b></p> <ul style="list-style-type: none"> <li>• Three companies in our sample did not disclose their annual report in English.</li> </ul>
<p><b>2.4. Disclosure on the External Audit</b> Moderately Strong</p>	<p><b>Strength:</b></p> <ul style="list-style-type: none"> <li>• All ten largest listed companies disclose the auditors' names and opinions in their financial statements. At least nine of ten largest listed companies disclose that their external auditors are independent.</li> <li>• Provision of non-auditing services by the external auditor is allowed, provided it does not undermine the auditor's independence (the outcome of this "independence test" is determined by the audit committee) and companies are required to disclose information on the provision of non-audit services by their external auditors. In practice, at least seven companies disclose information on the provision of non-audit services by their external auditors.</li> </ul> <p><b>Weakness:</b></p> <ul style="list-style-type: none"> <li>• While the majority of companies do disclose if they receive non-auditing services by their external auditors, such disclosure does not go in detail so to provide assurance that the independence of the external auditor is safeguarded.</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
<p><b>3. Internal Control</b> Fair/Moderately strong</p>	<p>Companies are recommended to have an internal audit function in place. Banks are required to establish an internal audit department, reporting directly to the board, via the audit committee. Additionally, banks should have the adequacy and effectiveness of their internal control framework assessed every three years by an independent external auditor. At least eight companies in our sample (two are banks) disclose having an internal audit function in place.</p> <p>Banks are required by law to establish a standalone compliance function and according to our respondents banks duly comply with this requirement.</p> <p>Public interest entities are required to set up audit committees, which should be composed of at least two (three in case of banks) non-executive board members; at least one member must be independent and have competence in accounting or auditing matters. The CSE Code recommends that the majority of committee members should be independent. The chair of the committee should have experience in accounting or audit. Seven out of the largest ten listed companies disclose having an audit committee in place. At least six of them disclose the number of audit committee’s meetings, which ranges from 4 meetings to 31 meetings in the previous year.</p> <p>Provision of non-auditing services by the external auditors is allowed, but subject to an “independence test” by the audit committee. In practice, at least seven companies disclose information (yes/no) on the provision of non-audit services by their external auditors. At least four companies disclosed receiving non-audit services simultaneously with audit. Audit partners are required to rotate every seven years. This requirement does not seem to apply to audit firms.</p> <p>Related party transactions and conflict of interest are regulated by law and it seems that extensive case law exists on these issues.</p> <p>There is no requirement to have a code of ethics, and whistle-blowing legislation is not comprehensive.</p>
<p><b>3.1. Quality of the Internal Control Framework</b> Fair</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Banks are required to have internal audit and separate compliance functions.</li> <li>• The CSE Code recommends that the board should maintain a sound system of internal control, which should be assessed by the directors at least annually.</li> <li>• It appears that at least eight out of the ten largest listed companies disclose having an internal audit function. This figure includes the two banks in our sample.</li> <li>• Banks are required to establish a standalone compliance function and the two banks in our sample appear to comply with this requirement.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Companies are only recommended to have an internal audit function in place.</li> <li>• Neither companies nor banks are required by law to have a code of ethics. However, at least four companies (two banks included) of the ten largest listed companies disclose having a code of ethics in place.</li> <li>• There are no comprehensive provisions regarding whistle-blowing.</li> </ul>
<p><b>3.2. Quality of Internal and External Audit</b> Fair</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Banks are required to have an internal audit department, reporting directly to the board, through the audit committee. Additionally, banks should have the adequacy and effectiveness of their internal control framework assessed every three years by an independent external auditor, other than the statutory auditor, who possesses the necessary skills and expertise to carry out this assessment.</li> <li>• Companies are required to have their financial statements reviewed by independent external auditors appointed by the general shareholders’ meeting. At least nine of ten largest listed companies disclose that their external auditors are independent.</li> <li>• The majority of the ten largest listed companies are audited by international audit firms.</li> <li>• Audit partners are required to rotate at least every seven years. They are allowed to participate in the audit of the audited entity again after a period of at least two years. Only one company disclosed having rotated its auditor though.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• It appears that there are no rotation requirements for audit firms (the requirement is limited to audit partners).</li> <li>• The auditors’ “cooling off” period of two years might not be enough to ensure the independence of the auditor.</li> <li>• From the available information, we have doubt about the effective implementation of auditors’ rotation.</li> <li>• Provision of non-auditing services by the external auditors is allowed, provided that it does not undermine the auditor’s independence (i.e. subject to the audit committee’s ‘independence test’). In practice, at least seven companies disclose information (yes/no) on the provision of non-audit services by their external auditors. We believe that this kind of disclosure is not informative enough, especially having in mind that the CSE Code recommends companies to explain in their annual reports on corporate governance the manner in which the</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
	<p>external auditor's objectivity and independence are safeguarded. At least four companies received non-audit services simultaneously with audit.</p>
<p><b>3.3. Functioning and Independence of the Audit Committee</b> Fair/Moderately Strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>Public interest entities are required to set up audit committees, which must be composed of at least two (three in banks) non-executive board members; at least one member must be independent and have competence in accounting or auditing matters.</li> <li>The CSE Code recommends audit committee to be made by a majority of independent directors. The chair of the committee should have experience in accounting or financial policies.</li> <li>Seven out of the largest ten listed companies disclose having an audit committee in place. In at least six cases, the committee is made by a majority of independent directors.</li> <li>For banks, the 2014 Directive establishes that the audit committee meetings "must coincide with important financial reporting dates, where appropriate". At least six companies out of ten largest listed companies disclose the number of audit committee's meetings. This ranges from 4 meetings to 31 meetings in the previous year.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>In contrast to banking regulations, the right of access of the audit committee to sufficient resources and employees as well as all necessary information is not explicitly prescribed for other public interest entities.</li> <li>Further efforts should be paid to ensure that the audit committee is entirely made of real independent and duly qualified directors.</li> </ul>
<p><b>3.4. Control over Related Party Transactions and Conflict of Interest</b> Strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>Conflicts of interest and related party transactions are regulated by law. The company law imposes a duty on directors who are directly or indirectly interested in a contract or proposed contract with the company to declare the nature of their interest at the board meeting considering the transaction. If the director becomes interested in the contract after the contract is entered into, he or she must declare the interest at the first board meeting after he/she became interested. Failure to do so constitutes a criminal offence and the director is liable to a fine of 855 EUR, which seems rather low.</li> <li>Directors are not allowed to vote in respect to any contract or arrangement in which they are interested, and if they do so their vote cannot be counted, nor they can be counted in the quorum present at the board meeting, with certain exceptions. Only the general meeting of shareholders can release the director of this prohibition, either generally or in relation to a particular contract or transaction.</li> <li>For listed companies, the law requires boards to oversee all significant related party transactions and either decide or make proposals to the general shareholders' meeting (GSM). The concerned directors should not be involved and should abstain from voting on related party transactions.</li> <li>Related party transactions need to be disclosed in the financial statements, pursuant to IFRS. All ten largest listed companies disclose related party transactions in their annual reports.</li> <li>In case of a conflict, by law conflicted directors must notify the board, have their conflict recorded in the meeting minutes, and abstain from voting.</li> <li>It appears that related party transactions can be invalidated by court. There is extensive case law and judicial practice in this area.</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
<p><b>4. Rights of Shareholders</b> Moderately Strong</p>	<p>Shareholders representing at least 10% of the share capital (5% for listed companies) are entitled to call a general shareholders' meeting (GSM). In listed companies, shareholders representing at least 5% of the capital are allowed to add items to the GSM agenda. The law allows shareholders to submit questions in advance or at the GSM. The Companies Law allows shareholders to participate at the GSM in person or in absentia on the basis of a power or attorney. The law also allows postal and electronic voting.</p> <p>Regulation on minority shareholders protection and shareholders' access to information seems to be comprehensive and generally in line with best practices. However, cumulative voting is not provided by law.</p> <p>Derivative suits are permitted by the Companies Law. This seems a well consolidated practice. Shareholders have inspection and pre-emptive rights.</p> <p>The Companies Law provides that certain major corporate changes require supermajority votes at the GSM.</p> <p>Insider trading and self-dealing are regulated by law and appear to be enforced. Regulation requires companies to have share registration maintained by an independent registrar.</p> <p>The law requires disclosure on significant shareholding variations.</p> <p>Shareholders agreements are enforceable and widely used in practice.</p>
<p><b>4.1. General Shareholders' Meeting (GSM)</b> Moderately Strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Shareholders representing at least 5% of the capital of a listed company are entitled to call a GSM.</li> <li>• Companies are required to notify the GSM agenda to shareholders 21 calendar days before the meeting. For extraordinary shareholders meeting, timely notice must be given 14 calendar days before the meeting.</li> <li>• All ten largest listed companies published their GSM notifications on their websites and on the CSE platform.</li> <li>• In listed companies shareholders representing at least 5% of the capital are allowed to add items to the general shareholders' meeting (GSM) agenda.</li> <li>• The CSE Code recommends that the nomination committee should lead the nomination process.</li> <li>• The Companies Law allows shareholders to participate at the GSM in person or in absentia on the basis of a power or attorney. Moreover, the law allows for postal and electronic voting.</li> <li>• The law allows shareholders to submit questions in advance of the GSM and to ask questions at the GSM.</li> </ul>
<p><b>4.2. Protection against Insider Trading and Self-dealing</b> Moderately Strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Insider trading is prohibited and can be penalised by administrative and civil sanctions. Several insider trading cases have been investigated in the past.</li> <li>• Conflicts of interest and related party transactions are regulated by law.</li> <li>• All companies in our sample disclose directors' transactions involving the companies' shares.</li> </ul>
<p><b>4.3. Minority Shareholders Protection and Shareholders' Access to Information</b> Moderately Strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• All listed companies are required by law to prepare annual reports. In practice, annual reports are largely available.</li> <li>• Derivative suits are provided in the company law and have been brought before the courts many times in the past.</li> <li>• The Companies Law provides that certain major corporate changes require supermajority votes at the GSM. The most common one is the 75% majority. In these instances, minority shareholders may block major corporate changes with a 25%+1 vote.</li> <li>• The Companies Law provides that "on the increase of the share capital of a public company by considerations in cash, the shares must be offered on a pre-emptive basis to shareholders in proportion to the percentage of the capital represented by their shares". The offer for subscription on a pre-emptive basis, as well as the period within which such right must be exercised, must be published.</li> <li>• Shareholders have general inspection rights.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• It appears that cumulative voting is not foreseen in the law and regulation. However, it seems that shareholder agreements are a commonly used practice to allow minority shareholders to elect their board candidates.</li> </ul>
<p><b>4.4. Registration of Shareholdings</b> Moderately strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Shareholders agreements are widely used in practice in Cyprus.</li> <li>• Share register of the companies is required to be maintained by the registrar of companies.</li> <li>• Companies are required to disclose to the stock exchange on-going information on significant shareholder variations.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• According to the 19 June 2015 amendments to the Cyprus Companies' Law, there is no longer a need to register with the Registrar any shareholders' agreement relating to the company.</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
<p><b>5. Stakeholders and Institutions</b> Fair/Moderately strong</p>	<p>The institutional framework supporting corporate governance practices in Cyprus seems to be moderately well developed. Nevertheless, regulatory reforms could improve the transparency of its monitoring processes.</p> <p>The Cyprus Stock Exchange (CSE) is the regulated market in the country. The CSE has a low market capitalization and seems to be fairly illiquid. After the 2002 stock market collapse, the CSE Council issued the Code of Corporate Governance for the Cyprus Stock Exchange (CSE Code), which was most recently reviewed in 2014.</p> <p>There are two listing tiers at the CSE: the Main Market Segment and the Alternative Market Segment. To be listed in the Main Market, companies must adhere to the provisions of the CSE Code. Other listed companies are required to implement the Code under a “comply or explain” basis. Companies failing to comply with the legislation and regulations of the CSE can be placed under the Surveillance Market Segment.</p> <p>The primary bodies responsible for the CSE Code and its enforcement are the CSE and the Cyprus Securities and Exchange Commission (CYSEC). The CSE is in charge for monitoring and amending the CSE Code. Nevertheless, we have been unable to find any reports monitoring or disclosing companies’ compliance with the CSE Code.</p> <p>In its capacity as a regulator, the CYSEC issues directives with a view of regulating corporate governance in Cyprus.</p> <p>It seems that there are no major inconsistencies in legislation on corporate governance. When looking at international indicators, Cyprus ranks fairly well in terms of transparency and investor protection perceptions, although its competitiveness performance is relatively poor.</p>
<p><b>5.1. Corporate Governance Structure and Institutions</b> Moderately strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>The Cyprus Stock Exchange (CSE) is the regulated market in the country. There are two listing tiers at the CSE: the Main Market Segment and the Alternative Market Segment. To be listed in the Main Market, companies must adhere to stricter corporate governance requirements.</li> <li>The Listing Rules of the Cyprus Stock Exchange require listed companies to adopt the Cyprus Stock Exchange Corporate Governance Code (CSE Code) under the so-called “comply or explain” approach. This means that all listed companies must provide a statement in which they declare their compliance with the Code and – in case of non-compliance – explain the reasons for doing so. Companies listed on the Main Market are under a stricter obligation: they must obtain from the CSE specific acceptance of such non-compliance. If the CSE is not satisfied, it will grant a grace period for the company to comply with the Code, and thereafter it might take action, including the downgrading or delisting of the company.</li> <li>The CSE website publishes listed companies’ regulatory submissions, including financial statements, general shareholders’ meeting (GSM) announcements and annual reports. International rating agencies are active in the country; all ten largest listed companies were rated by international agencies.</li> <li>International audit and law firms have a material presence in the country.</li> <li>It appears that there are several training courses on corporate governance offered in Cyprus.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>The CSE has a market capitalization of 17.4% of GDP, but the trading volumes are very low.</li> <li>The rulings of regulatory agencies are documented and publicly available, but not easily accessible.</li> </ul>
<p><b>5.2. Corporate Governance Code</b> Fair</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>After the 2002 stock market collapse, the CSE Council issued the Cyprus Stock Exchange Corporate Governance Code (CSE Code), and it was most recently reviewed in 2014 (fourth edition).</li> <li>The Listing Rules of the Cyprus Stock Exchange require listed companies to adopt the Cyprus Stock Exchange Corporate Governance Code (CSE Code) under the so-called “comply or explain” approach. This means that all listed companies must provide a statement in which they declare their compliance with the Code and – in case of non-compliance – explain the reasons for doing so. Companies listed on the Main Market are under a stricter obligation: they must obtain from the CSE specific acceptance of such non-compliance. If the CSE is not satisfied, it will grant a grace period for the company to comply with the Code, and thereafter it might take action, including the downgrading or delisting of the company.</li> <li>Three of the country’s largest ten largest listed companies are part of the Main Market Segment and, as required by the listing guidelines, all of them present a corporate governance section in their annual reports.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>It does not appear that there are any published reports providing evidence of how companies comply with the CSE Code.</li> <li>The corporate governance statements disclosed by companies – albeit informative and generally comprehensive - do not always describe in details whether the companies comply or explain with the CSE Code. Often explanations are very formalistic and not that meaningful.</li> <li>There appears to be no case law referring to the CSE Code.</li> </ul>

<b>Key Areas and Rating</b>	<b>Strengths and Weaknesses</b>
<b>5.3. Institutional Environment</b> Fair	<p><b>Strengths:</b></p> <ul style="list-style-type: none"><li>• It appears that there are no significant inconsistencies between laws and regulations in matters regarding corporate governance.</li><li>• When looking at international indicators, Cyprus ranks fairly well in terms of transparency and investor protection perceptions.</li></ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"><li>• According to a <a href="#">2015 EBRD Assessment on court decisions' accessibility</a>, it seems to be fairly difficult for the general public to find case law information in Cyprus. Although access seems to be easier for lawyers, databases are not regularly updated.</li><li>• The World Economic Forum ranks Cyprus relatively poorly in terms of competitiveness.</li></ul>