



Global Forum on Transparency
and Exchange of Information for Tax Purposes



SUPPLEMENTARY PEER REVIEW REPORT

Phase 2

Implementation of the Standard in Practice

CYPRUS



Table of contents

About the Global Forum	5
Executive summary	7
Introduction	11
Information and methodology used for the peer review of Cyprus	11
Overview of Cyprus	12
Recent developments	14
Compliance with the standards	15
A. Availability of information	15
Overview	15
A.1. Ownership and identity information	17
A.2. Accounting records	33
A.3. Banking information	36
B. Access to information	39
Overview	39
B.1. Competent Authority’s ability to obtain and provide information	40
B.2. Notification requirements and rights and safeguards	49
C. Exchanging information	51
Overview	51
C.1. Exchange of information mechanisms	52
C.2. Exchange of information mechanisms with all relevant partners	54
C.3. Confidentiality	55
C.4. Rights and safeguards of taxpayers and third parties	56
C.5. Timeliness of responses to requests for information	56

Summary of determinations and factors underlying recommendations	63
Annex 1: Jurisdiction’s response to the review report	67
Annex 2: List of all exchange-of-information mechanisms in force	68
Annex 3: List of all laws, regulations and other material consulted	76
Annex 4: Persons interviewed during the on-site visit	77

About the Global Forum

The Global Forum on Transparency and Exchange of Information for Tax Purposes is the multilateral framework within which work in the area of tax transparency and exchange of information is carried out by over 120 jurisdictions, which participate in the Global Forum on an equal footing.

The Global Forum is charged with in-depth monitoring and peer review of the implementation of the international standards of transparency and exchange of information for tax purposes. These standards are primarily reflected in the 2002 OECD Model Agreement on Exchange of Information on Tax Matters and its commentary, and in Article 26 of the OECD Model Tax Convention on Income and on Capital and its commentary as updated in 2004. The standards have also been incorporated into the UN Model Tax Convention.

The standards provide for international exchange on request of foreseeably relevant information for the administration or enforcement of the domestic tax laws of a requesting party. Fishing expeditions are not authorised but all foreseeably relevant information must be provided, including bank information and information held by fiduciaries, regardless of the existence of a domestic tax interest or the application of a dual criminality standard.

All members of the Global Forum, as well as jurisdictions identified by the Global Forum as relevant to its work, are being reviewed. This process is undertaken in two phases. Phase 1 reviews assess the quality of a jurisdiction's legal and regulatory framework for the exchange of information, while Phase 2 reviews look at the practical implementation of that framework. Some Global Forum members are undergoing combined – Phase 1 and Phase 2 – reviews. The Global Forum has also put in place a process for supplementary reports to follow-up on recommendations, as well as for the ongoing monitoring of jurisdictions following the conclusion of a review. The ultimate goal is to help jurisdictions to effectively implement the international standards of transparency and exchange of information for tax purposes.

All review reports are published once approved by the Global Forum and they thus represent agreed Global Forum reports.

For more information on the work of the Global Forum on Transparency and Exchange of Information for Tax Purposes, and for copies of the published review reports, please refer to www.oecd.org/tax/transparency and www.eoi-tax.org.

Executive summary

1. In 2013, the Global Forum evaluated Cyprus¹ for its implementation of the standard in practice. Cyprus was rated Non-Compliant overall. This supplementary report evaluates the progress made by Cyprus since then. It concludes that Cyprus is now rated Largely Compliant overall.

2. The Phase 2 report concluded that Cyprus was Compliant for elements A.3 (Availability of Banking Information), B.2 (Rights and Safeguards), C.1 (EOI Mechanisms), C.3 (Confidentiality) and C.4 (Rights and Safeguards), Largely Compliant for element C.2 (Network of EOI Mechanisms), Partially Compliant for elements A.1 (Availability of Ownership and Identity Information) and C.5 (Exchanging Information), and Non-Compliant for elements A.2 (Availability of Accounting Information) and B.1 (Access to Information).

3. The legal and practical implementation of the standard for elements A.3, B.2, C.1, C.3 and C.4 have remained Compliant.

4. With respect to elements A.1 and A.2, the Phase 2 report found that the legal and regulatory framework to ensure the availability of ownership and identity and accounting information was in place. Information must not only be kept by the relevant entities and arrangements themselves, but in many cases it must be filed to the authorities as well, or at least used as a basis for filing to the authorities. However, the Phase 2 report concluded that the monitoring and enforcement of obligations to file annual returns to the

1. Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

companies registrar and the tax authorities was insufficient, which resulted in Cyprus failing to exchange (up-to-date) information for EOI purposes.

5. Since the Phase 2 report, a major operation has been initiated to reform and reorganise the companies registrar, which includes the cleansing of the register of companies. Companies must either file all outstanding annual returns or be struck off. This cleansing will be followed by active monitoring and enforcement of filing obligations, both on companies and partnerships, which should ensure the availability of company and partnership ownership information. A similar exercise is carried out by the tax authorities with respect to the timely submission of income tax returns. The tax register will be better aligned with the register of companies, outstanding tax returns should be filed, which is combined with heightened monitoring and enforcement.

6. Both initiatives have produced promising preliminary results, as many outstanding returns have been filed to the authorities since the Phase 2 report. It is also found that ownership and identity information as well as accounting information has been available in almost all cases under EOI requests received during the two-year review period of this supplementary report. However, comprehensive results of the newly established monitoring and enforcement procedures are not yet available. It is therefore recommended that Cyprus monitor the implementation of its revised monitoring and enforcement procedures with respect to obligations to keep up-to-date information and, where required, file it with the authorities. Considering the improvements made, the ratings for elements A.1 and A.2 have been upgraded to Largely Compliant.

7. For element B.1, two main issues were identified with respect to the practical application of Cyprus' access powers during the three-year review period of the Phase 2 report, which resulted in recommendations for improvement. Firstly, it was common practice of the Cypriot competent authority not to approach a taxpayer for information before that taxpayer had submitted its income tax return(s) for the year(s) the information sought by the requesting jurisdiction related to, even in cases where no direct relationship between the tax return and the information sought existed. This practice was abandoned at the end of 2011, and since then the Cypriot competent authority seeks to obtain information from a taxpayer for EOI purposes regardless of whether income tax returns are outstanding. This has had a clear positive impact on response times.

8. Second, information had been requested from third parties in a limited number of cases, and only from banks, while this may have been an alternative in cases where information could not be obtained from taxpayers. In respect of EOI requests received during the two-year review period of this supplementary report, information from third parties has been requested in

many more cases than before, including from service providers other than banks in a few cases, and this process has proven to be adequate.

9. The Phase 2 report noted a relatively high level of non-compliance in providing information to the Cypriot competent authority for EOI purposes, and that this had not been effectively dealt with. As the level of compliance has increased significantly since the Phase 2 report, it has only been necessary for the Cypriot authorities to use their compulsory powers in less than ten cases in relation to EOI requests received during the two-year review period of this supplementary report, and in all of these cases the information has been obtained in a reasonable timeframe. In addition, the administrative process leading up to formal prosecution has been simplified.

10. As all issues identified in the Phase 2 report under element B.1 have been adequately addressed, and peers have not raised any further issues, the rating for element B.1 has been upgraded to Compliant.

11. Cyprus' exchange of information network has significantly increased, mainly through Cyprus becoming a party to the multilateral Convention on Mutual Administrative Assistance in Tax Matters ("Multilateral Convention"), and now reaches 103. In contrast with the position in the Phase 1 and the Phase 2 reports on Cyprus, no jurisdictions reported any delays or negative responses from Cyprus to their requests for entering into an information exchange agreement. The rating for element C.2 has therefore been upgraded to Compliant.

12. Under element C.5, the Phase 2 report concluded that the Cypriot competent authority had not been able to respond to EOI requests in a timely manner, as less than 10% of the cases were answered within 90 days, only 20% were answered within 180 days, and approximately 40% was still pending. One of the main reasons identified was a lack of sufficient staff to handle all incoming requests. It was already noted that additional staff members had been allocated to the competent authority in late 2012 and early 2013, immediately after the end of the three-year review period of the Phase 2 report.

13. Response times to incoming EOI requests have clearly improved since the Phase 2 report, which is confirmed by peer input. Not only have new incoming requests been responded to more quickly (33% within 90 days, 64% within 180 days, only 3% still pending), the Cypriot competent authority has also eliminated the backlog from the three-year review period of the Phase 2 report. However, dealing with this backlog has also been one of the reasons that internal deadlines were not always met during the two-year review period of this supplementary report, which resulted in some EOI requests not being responded to in a timely manner. It is therefore recommended that Cyprus ensures that all EOI requests are responded to in a timely manner.

14. Notwithstanding that there is some room for improvement, the organisational process for handling incoming EOI requests as well as the number of staff at the competent authority are now adequate to provide timely responses. Considering the developments, the rating for element C.5 has been upgraded to Largely Compliant.

15. As a result of this supplementary review, Cyprus' rating for each of the 10 essential elements and its overall rating have been revised. The ratings for the essential elements are based on the analysis in the text of the report, taking into account the Phase 1 determinations and any recommendations made in respect of Cyprus' legal and regulatory framework and the effectiveness of its exchange of information in practice. On this basis, Cyprus has been assigned the following ratings: Compliant for elements A.3, B.1, B.2, C.1, C.2, C.3 and C.4, and Largely Compliant for elements A.1, A.2 and C.5. In view of the ratings for each of the essential elements taken in their entirety, the overall rating for Cyprus is Largely Compliant.

16. A follow up report on the steps undertaken by Cyprus to answer the recommendations made in this report should be provided to the Peer Review Group within twelve months after the adoption of this report.

Introduction

Information and methodology used for the peer review of Cyprus

17. The assessment of Cyprus' legal and regulatory framework as well as its practical implementation made in this supplementary peer review report was prepared following a request pursuant to paragraph 60 of the Global Forum's *Methodology for Peer Reviews and Non-member Reviews* (version adopted in November 2013). It considers recent changes to the legal and regulatory framework of Cyprus, as well as to the effectiveness of this framework in practice, based on the international standards for transparency and exchange of information as described in the Global Forum's *Terms of Reference*.

18. Cyprus informed the Peer Review Group (a subsidiary body of the Global Forum) in November 2014 of the steps it had taken to address the recommendations made in its Phase 2 report. Progress was reported on elements A.1, A.2, B.1 and C.5 and a request for a supplementary review was made. On the basis of the progress reported, the Peer Review Group agreed that a supplementary review be launched.

19. The present report takes the opportunity to review the implementation of all recommendations, whether progress was reported or not. Similarly, this report also reviews changes made to Cyprus' legal and regulatory framework and relevant changes in the practical implementation of that framework since the Phase 2 report, which took into account the situation as at August 2013.

20. The supplementary report is based on information available to the assessment team, which included the laws, regulations, and exchange of information arrangements in force or effect as at 14 August 2015, the practical implementation and effectiveness of the legal and regulatory framework in the two-year review period of 1 July 2012 – 30 June 2014, as well as information supplied by Cyprus and partner jurisdictions. It follows the Phase 2 Report of Cyprus which was adopted and published by the Global Forum in November 2013.

21. The assessment was conducted by an assessment team which consisted of two expert assessors and one representative of the Global Forum Secretariat: Mr. Duncan Nicol, Director of the Cayman Islands Tax Information Authority; Mr. Thierry Glajean, Large Business Audit Branch of the French Revenue Administration; and Mr. Mikkel Thunnissen from the Global Forum Secretariat.

22. The *Terms of Reference* break down the standards of transparency and exchange of information into 10 essential elements and 31 enumerated aspects under three broad categories: (A) availability of information; (B) access to information; and (C) exchanging information. This review assesses Cyprus' legal and regulatory framework as well as the practical implementation of that framework against these elements and each of the enumerated aspects. In respect of each essential element, a determination is made that either: (i) the element is in place; (ii) the element is in place but certain aspects of the legal implementation of the element need improvement; or (iii) the element is not in place. These determinations are accompanied by recommendations for improvement where relevant. In addition, to reflect the Phase 2 component of the review, recommendations are made concerning Cyprus' practical application of each of the essential elements and a rating of either: (i) compliant, (ii) largely compliant, (iii) partially compliant, or (iv) non-compliant is assigned to each element. An overall rating is also assigned to reflect Cyprus' overall level of compliance with the standards.

23. An updated summary of determinations and factors underlying recommendations in respect of the 10 essential elements of the *Terms of Reference*, which takes into account the conclusions of this supplementary report, can be found at the end of this report.

Overview of Cyprus

24. Cyprus is the third largest island in the Mediterranean Sea, located in the Eastern Mediterranean at the crossroads of Europe, Asia and Africa. The population of Cyprus is estimated to be 858 000.² Its capital is Nicosia, and approximately 25% of the population resides in the city and its surrounding urban area.

25. The Cypriot economy has been in a recession since the second half of 2011. A banking crisis caused the recession to deepen in the first half of 2013. The gross domestic product (at current market prices) was estimated to be EUR 17.5 billion in 2014, which means a drop of approximately 10% since the start of the recession. The services sector accounts for more than 80% of the economy. The services sector comprises a variety of economic

2. End 2013 figure from the Statistical Service of Cyprus, www.cystat.gov.cy.

activities, such as tourism, banking, finance and insurance, legal and business consulting and shipping and ship management. Cyprus' main trading partner is Greece, with other important trading partners being Israel, the United Kingdom, Italy and Germany.³

26. Cyprus is a member of the European Union (EU) since 1 May 2004. It also joined the Economic and Monetary Union at that date, and adopted the euro as its national currency on 1 January 2008.

27. The Cypriot legal system is mainly based on common law, but some areas are based on the civil law system. Some laws in force have been inherited from the time Cyprus was a British colony, but most have since been replaced by new legislation.

28. The financial sector represents an important part of the Cypriot economy. Financial and insurance activities accounted for approximately 8% of its GDP in 2014.⁴ The licensing and supervision of all banks and co-operative credit institutions falls under the direct responsibility of the Central Bank. Although the number of banks operating in Cyprus has remained stable at around 40, the total amount of deposits held by banks and co-operative credit institutions in Cyprus has dropped by approximately 30% since the start of the banking crisis, before stabilising at around EUR 46.5 billion since June 2014.

29. The provision of financial services, trust services and company services is highly regulated in Cyprus. Firstly, service providers are subject to obligations under AML/CFT legislation and in this regard they must carry out customer due diligence and report any suspicious transactions. Second, only lawyers, accountants and licensed companies are allowed to provide company and trust services as a professional since the introduction of the Administrative Services Law in December 2012. Lawyers and accountants are supervised by the Cyprus Bar Association (CBA) and the Institute of Certified Public Accountants of Cyprus (ICPAC) respectively, both with respect to their compliance with the obligations under AML/CFT legislation as well as the Administrative Services Law. Companies holding a license to provide company and trust services as a professional under the Administrative Services Law fall under the supervision of the Cyprus Securities and Exchange Commission (CySEC), also with respect to both the Administrative Services Law and the AML/CFT legislation.

30. The current Cypriot tax system is largely the result of a major reform that came into effect on 1 January 2003. With the reform the offshore tax regime was abolished and a residence-based tax regime was introduced.

3. The data in this paragraph are derived from publications of the Statistical Service of Cyprus, www.cystat.gov.cy.

4. End 2014 figure from the Statistical Service of Cyprus, www.cystat.gov.cy.

Companies which have their management and control in Cyprus are subject to income tax from sources within and outside Cyprus in respect of business profits and certain investment income against a rate of 12.5%. Individuals resident in Cyprus are subject to income tax in respect of the same income as companies, as well as employment income and certain pension income. Rates are progressive with a maximum rate of 35%.

31. Partnerships are considered tax transparent and tax is levied on the partners directly. Trustees, as “representatives” of the beneficiaries, are subject to tax in respect of the income received from the trust property under their control or administration.

32. Cyprus has had double taxation conventions (DTCs) with its main trading partners since the 1970s. From the 1980s Cyprus has gradually expanded its network of DTCs and now has more than 55 DTCs. Its powers to obtain and exchange information under these DTCs are implemented in the Assessment and Collection of Taxes Law. This power is executed by the Commissioner of the Tax Department of the Ministry of Finance. Information exchange also occurs with other EU members under relevant EU Council Directives.

Recent developments

33. In addition to the DTCs and Directives, Cyprus is also able to exchange information on request as well as on an automatic basis through the Multilateral Convention, which it signed in July 2014 and is in force for Cyprus since 1 April 2015. Under this instrument, Cyprus has joined a multilateral competent authority agreement with a view to exchange financial account information automatically in line with its commitment to do so starting in 2017. Similar automatic exchanges are also expected to take place under *Council Directive 2011/16/EU* (as amended by *EU Council Directive 2014/107/EU*).

Compliance with the standards

A. Availability of information

Overview

34. Effective exchange of information requires the availability of reliable information. In particular, it requires information on the identity of owners and other stakeholders as well as information on the transactions carried out by entities and other organisational structures. Such information may be kept for tax, regulatory, commercial or other reasons. If such information is not kept or the information is not maintained for a reasonable period of time, a jurisdiction's competent authority may not be able to obtain and provide it when requested. This section of the report describes and assesses Cyprus' legal and regulatory framework on availability of information. It also assesses the implementation and effectiveness of this framework.

35. Availability of ownership and identity information in respect of companies is generally ensured by the requirement to keep an up to date register of members. Companies must also file an annual return to the Department of Registrar of Companies and Official Receiver (DRCOR) with the latest register of members, and since the tax year 2013 the company income tax return must contain details of all members. All public companies could issue share warrants to bearer until December 2012, by which date this possibility was restricted to public companies listed on a regulated market. It has been confirmed through a manual check of the files at the DRCOR that none of the existing public companies had ever issued share warrants to bearer.

36. No significant developments occurred with respect to partnerships. Although the co-operative societies credit sector has been restructured, all co-operative societies must still keep a full list of members and, where applicable, non-member shareholders, and a list of members must be provided to the authorities on a regular basis.

37. Since 21 December 2012, all trustees are under a clear obligation to have information available on the other trustees, settlors and beneficiaries. In addition, all trusts that are professionally managed by a Cypriot trustee and are governed by Cypriot law must now be registered. This framework ensures the availability of trust identity information. Notwithstanding the relatively recent introduction of clear requirements to ensure the availability of trust identity information, it was previously already checked in many instances whether service providers kept this information in practice, and initial monitoring of the new obligation has not revealed any significant non-compliance. The recommendation that Cyprus should closely monitor its practical implementation has therefore been removed.

38. In respect of accounting records, a system of mandatory audits combined with independent review of the auditors ensures that reliable accounting records, supported by underlying documentation, are kept by all persons which have their accounts audited. Through a combination of tax law and company law, this should cover all relevant entities and arrangements.

39. Notwithstanding the existence of a sound legal and regulatory framework, the Phase 2 report found that ownership and accounting information had not been available in a number of cases, in particular where companies did not comply with their general obligations to submit tax returns to the tax authorities and/or annual returns to the DRCOR. Compliance with submitting annual returns to the tax authorities and the DRCOR has improved significantly since the Phase 2 report. Returns from previous years are now being collected and new procedures for monitoring and enforcing compliance are being developed. However, this is a work in progress and the new procedures are yet to be fully implemented. It is therefore recommended that Cyprus monitor the implementation of its revised monitoring and enforcement procedures with respect to obligations to keep ownership and accounting information and file it with the DRCOR and the tax authorities.

40. The improvement in compliance with submitting annual returns to the tax authorities and the DRCOR is also demonstrated by the peer input, which confirms that ownership and accounting information has been available in almost all cases during the two-year review period of this supplementary report. On the basis of the improvements made, the ratings for elements A.1 and A.2 are both upgraded to Largely Compliant.

41. Regarding banking information, no issues have emerged since the Phase 2 report. Although the system of supervision of the Central Bank of Cyprus has been revised, the principles have remained the same and significant non-compliance with relevant record keeping obligations has not been encountered. Peer input also confirms that banking information has been available.

A.1. Ownership and identity information

Jurisdictions should ensure that ownership and identity information for all relevant entities and arrangements is available to their competent authorities.

42. The Phase 2 report concluded that Cyprus had a legal framework in place to ensure the availability of ownership and identity information for all relevant entities and arrangements. However, a clear obligation with respect to trusts had only been in force since 1 January 2013 and it was recommended that Cyprus monitor its practical implementation. In addition, it was found that in practice compliance with important filing obligations that should ensure availability of ownership information on companies and partnerships was low, and no or insufficient monitoring and enforcement took place. This may have resulted in Cyprus not exchanging up-to-date information.

Companies (ToR A.1.1)

43. The DRCOR of the Cyprus Ministry of Energy, Industry and Tourism is responsible for all company registrations. The DRCOR receives and processes company registrations, changes in registered details and annual returns, and also collects the accompanying fees, including a fixed annual fee, to be paid by registered companies. It is also responsible for monitoring whether companies comply with these obligations, and for striking off companies that do not comply.

44. Based on a third party review of the functioning of the DRCOR, the Council of Ministers, in April 2014, approved an action plan for the reformation and reorganisation of the DRCOR. A project team was established to implement the action plan. A reformation and reorganisation of the DRCOR was necessary because there was a significant backlog to process documents and no or very little monitoring was performed to check compliance with filing obligations of registered companies. As a result, the register contained a large number of companies that were no longer active. Also, many active companies had not fulfilled all their filing obligations.

45. The action taken by the project team so far includes further digitalisation of the database, the processing of approximately 40 000 pending documents regarding changes in registered details, cleansing the register

from inactive companies by starting the strike-off process, setting up a Compliance Team for monitoring filing obligations (the monitoring of filing obligations is covered under element A.1.6), and preparing amendments to the Companies Law in order to streamline the registration, filing and strike-off processes. The amendments to the Companies Law took effect on 19 June 2015.

46. It was mentioned in the Phase 2 report that 10% of the new company registrations in 2012 were filed electronically. This increased to 32.5% in 2014. In addition, all physical files, including of companies that are already registered, are being scanned to make them available electronically. As at March 2015, almost 250 000 companies have an electronic file, which includes companies that no longer exist. Certain information is publicly available through DRCOR's website; this includes the company's name, registration number, date of incorporation, status (active, dissolved, etc.), and a list of filed documents. Since July 2014, the publicly available information also includes the company's registered office address and the names of the directors and the official company secretary, but this is available in Greek only.

47. A process for striking off all inactive companies on the register was initiated in September 2014. This was preceded by an awareness campaign through the media and service providers. More than 150 000 companies which failed to fulfil their obligations in past years received a letter reminding them to either comply with the obligations or be struck off. In April 2015, a second letter was sent to the companies that still had not complied (the vast majority). In July 2015, around 85 000 cases were sent for publication in the official Gazette, giving the non-compliant companies three months notice before being struck off. In addition to this "cleansing" process, a new policy and process are being developed for striking off companies that do not comply with their filing obligations. The new process includes the automatic generation of reminder letters, the imposition of fines where non-compliance persists, and the initiation of the strike off procedure after one year of non-compliance. This process is expected to be operational in 2016.

48. It is expected that through voluntary (an estimated 7 000-10 000 companies have or are expected to apply for this procedure before the end of 2015) and forced strike off, the total number of registered private companies limited by shares will decrease to around 130 000 by the end of 2015, compared to more than 270 000 at the time of the Phase 2 report (June 2013) and approximately 250 000 as at July 2015.

49. Other types of companies that exist in Cyprus are far less numerous and generally comply with their filing obligations. As at March 2015, the register included 708 private companies limited by guarantee, 574 public companies limited by shares and 20 European companies (*Societas Europaea*).

Legal framework to keep ownership information on companies

50. The Phase 2 report stated that the Cypriot legal framework ensured the availability of company ownership information through the requirement on the company itself to keep a register of members containing all relevant details. The register must be kept in Cyprus and if not kept at the registered office, the company must notify the DRCOR of the location where it is kept.

51. Companies are also subject to filing obligations. All companies must file annual returns with the DRCOR, which should include the latest register of members in the case of companies with a share capital. Non-compliance with the obligation to file an annual return can lead to a fine not exceeding EUR 42 (not EUR 42.72 as stated in the Phase 2 report) for every day the non-compliance continues, as well as an administrative penalty not exceeding EUR 8 543 (s. 20(3) Companies Law). In addition, all private companies with a share capital must notify the DRCOR of any transfer of shares or change in the shareholder's name or address. All companies must also file an annual tax return. For the tax years 2010-2012, the tax return contained a box to indicate whether a change in shareholdership has occurred. From the tax year 2013 onwards, companies must provide complete details of all shareholders and their number of shares at the beginning and at the end of the year, as was the practice followed for tax years up to 2009.

52. Finally, ownership information is available with service providers (lawyers, accountants or company service providers), which must collect and keep beneficial ownership information under the Prevention and Suppression of Money Laundering and Terrorist Financing Law (PSMLTFL), and in that process may also collect legal ownership information.

Practical availability of ownership information on companies

53. Monitoring the availability of company ownership information in practice is mainly the responsibility of the DRCOR through receiving annual returns from companies with their latest register of members. In addition, the supervisory authorities for the PSMLTFL also monitor the availability of ownership information with service providers. Further details with respect to these monitoring mechanisms will be described under element A.1.6.

54. During the two-year review period of this supplementary report, company ownership information was sought in approximately 75% of the cases, relating to 800 companies. The Cypriot competent authority always obtains the information from the register of companies kept by the DRCOR, to which the competent authority staff has direct access. Where appropriate, for example in cases where the register does not contain recent information, the competent authority, since 2014, also requests the company to verify the information and state that it is correct. This is to ensure that up-to-date

information is exchanged, and has been done in many cases during the two-year review period. Since the “cleansing” of the companies register had not yet commenced, it contained information of which it was not certain that it was up-to-date.

55. According to the Cypriot authorities, company ownership information has been readily available throughout the two-year review period. This is confirmed by the peers providing input, which indicated that they have received company ownership information where they had requested it, except in a few cases where the company did not appear in the register kept by the DRCOR, and thus the company identified in the EOI request did not exist in Cyprus.

Conclusion

56. Company ownership information in Cyprus is available in the companies register with the DRCOR, and is always obtained from that source by the Cypriot competent authority, which has direct access to the register. Where appropriate, the competent authority also requests the company to verify the information and state that it is correct. Company ownership information has been requested for approximately 800 companies in the two-year review period, and peer input confirms that it has generally been available and exchanged.

Bearer shares (ToR A.1.2)

57. The Phase 2 report noted that public companies limited by shares that are listed on a regulated market may, if so authorised by its articles of association, issue share warrants to bearer, which have characteristics that are similar to bearer shares. Before December 2012, this possibility also existed for other public companies. It was stated in the Phase 2 report that the Cypriot authorities had written to all public companies (including the companies listed on the Cyprus Stock Exchange) asking whether they had issued share warrants to bearer in the past. As at September 2013, the Cypriot authorities had received confirmation from approximately 75% of these companies that they had not issued share warrants to bearer. It was recommended that Cyprus monitor the remaining responses and take measures to identify the owners of share warrants to bearer, if any have been issued in the past.

58. The Cypriot authorities indicated that, instead of pursuing further responses, a manual check of the files at the DRCOR was performed to check whether any of the existing public companies (including the ones that had already answered) was or had ever been authorised to issue share warrants to bearer. It was found that four companies were so authorised. These companies have been visited by the Cypriot authorities, and it was confirmed that none of them had (ever) issued share warrants to bearer.

59. Considering that no share warrants to bearer currently exist, and the possibility to issue them is now limited to public companies limited by shares that are listed on a regulated market,⁵ there is no need for further specific monitoring by Cyprus.

Partnerships (ToR A.1.3)

60. The Phase 2 report determined that all limited partnerships and all partnerships carrying on a business in Cyprus must be registered with the DRCOR, and upon registration details of all partners must be submitted. Any changes must be notified to the DRCOR within seven days. Contrary to what was stated in the Phase 2 report, the penalty amount for failing to register or to register any changes, is EUR 42 (not EUR 5.13) for every day the default continues (s. 61 Partnership and Business Names Law (PBNL)). In addition, any person making a false statement for the purpose of any registration is liable to a fine not exceeding EUR 2 562 or to imprisonment for a term not exceeding two years, or both (s. 63 PBNL).

61. Notwithstanding the statement in the Phase 2 report, it has now been established that all partnership registrations and changes were done on paper. The Cypriot authorities indicated that electronic registration and submission of changes will be introduced with the objective to have a fully electronic database on partnerships, similar to the one for companies, by the end of 2015. Meanwhile, basic information, such as the partnership's name and date of incorporation, is already on the electronic system and can be accessed free of charge via the website of the DRCOR.

62. As at March 2015, 6 316 partnerships were registered. Of these partnerships, 581 are required to submit an annual return to the DRCOR with up-to-date information regarding the registered particulars. These are mainly partnerships that have a company and/or a partnership as a general partner.

63. As was the case during the three-year review period of the Phase 2 report, peer input suggests that ownership information on partnerships has only been requested in a few cases during the two-year review period of this supplementary report. No specific issues were raised regarding the non-availability of this information.

5. The obligation to identify the owners in the case of publicly traded companies does not apply unless such information can be obtained without giving rise to disproportionate difficulties (Model Agreement on Exchange of Information on Tax Matters, art. 5(4)(b)).

Trusts (ToR A.1.4)

64. As noted in the Phase 2 report, trusts can be created in Cyprus, which can either be “ordinary” trusts or international trusts. In either case, there must always be at least one trustee who is a resident in Cyprus (s. 5(2) Administrative Service Law and s. 2 International Trust Law).

65. Trustees have obligations to keep identity information in respect of the trust under common law, anti-money laundering legislation and the Administrative Service Law (ASL). The most clear and comprehensive obligation is the one introduced in December 2012 under section 3(7) of the ASL, which requires all trustees resident in Cyprus (whether or not acting in a professional capacity) to keep relevant details on the other trustees, settlors and beneficiaries. The Phase 2 report contained a recommendation for Cyprus to monitor the practical implementation of this requirement. This will be further analysed under element A.1.6.

66. Since 2013, all persons wishing to provide trust services professionally either need to be licensed by the Cyprus Securities and Exchange Commission (CySEC), or must be a lawyer or accountant regulated by the Cyprus Bar Association (CBA) or the Institute of Certified Public Accountants (ICPAC) respectively. As at March 2015, there were 122 administrative services providers licensed by CySEC, approximately 3 000 lawyers and almost 1 000 practising accountants. The supervision of these service providers is described and analysed under element A.1.6.

67. In September 2013, Cyprus introduced the establishment of trust registers. Each trustee that is a resident of Cyprus and is the trustee of a trust governed by Cyprus law, must now, within 15 days of establishment of the trust or the adoption of Cyprus law as the law governing the trust, register the trust with the relevant authority (s. 25A(7) ASL). Lawyers acting as a trustee must register the trust with the CBA, practicing accountants with ICPAC, and licensed administrative services providers with CySEC. Non-professional trustees must also register the trust with CySEC. The trust registers are not available to the public, but the Cypriot competent authority can request information from it under the procedures described in Part B of this report. They contain the following information (s. 25A(6) ASL):

- The name of the trust.
- The name and address of every trustee at all relevant times.
- The date of establishment of the trust.
- The date of any change in the law governing the trust.
- The date of termination of the trust.

68. Existing trusts should have been registered within six months of the entry into force of the amended law (s. 25A(10) ASL). Failure to register a trust, may lead to a maximum penalty of EUR 350 000, or imprisonment for a term not exceeding five years, or both (s. 26(1) ASL). As at March 2015, a total of 3 491 trusts were registered in the three trust registers combined, of which 85% were professionally managed. The introduction of the trust registers clearly improves the availability of information on the trusts registered. It is noted that trusts governed by foreign law and managed by a trustee that is resident in Cyprus are not required to be registered, but, as noted above, the trustee is nevertheless required to keep identity information under the ASL.

Conclusion and practice

69. A clear obligation exists for all trustees resident in Cyprus, whether acting in a professional capacity or not, to keep relevant identity information on the trust. This covers all trusts governed by Cypriot law, as these must have at least one trustee who is a resident in Cyprus, as well as any trust governed by foreign law with a trustee resident in Cyprus. In addition, all trusts that are managed by a Cypriot trustee and are governed by Cypriot law must be registered. This comprehensive framework ensures the availability of trust identity information.

70. Only one peer that provided input indicated that it had asked for trust identity information, and that it had received this information. The Cypriot authorities confirmed that this type of information has only been requested in a few cases, and no issues have arisen with respect to the availability.

Foundations (ToR A.1.5)

71. The Cypriot legal and regulatory framework does not provide for the establishment of foundations.

Other relevant entities and arrangements

72. The co-operative societies credit sector in Cyprus has been restructured in the second half of 2013 and 2014. In September 2013, the supervision on all 93 co-operative credit institutions was integrated in the supervisory structure of the Central Bank of Cyprus, except with respect to their compliance with the Co-operative Societies Law (CSL), which is still covered by the Authority of Co-operative Societies (ACS). Co-operative credit institutions are involved in traditional banking, taking deposits almost entirely from local people and granting loans mainly to their members. As at March 2015, following a series of mergers, only 18 co-operative credit institutions exist.

73. The other co-operative societies are still fully under the supervision of the ACS. As at March 2015, the number of registered co-operative societies that are not credit institutions was still 83, the same as at the time of the Phase 2 report, although approximately 20 of these are inactive.

74. As noted in the Phase 2 report, all co-operative societies must keep a list of current and previous members at their registered address, and a list containing the details of new members and persons that ceased to be a member must be submitted to the ACS every six months. In the context of recapitalising co-operative credit institutions, the possibility of having non-member shareholders has been introduced at the end of 2013, which are considered to be investors. An amendment to the CSL was made to require every co-operative society to also maintain a register for every category of shares or other titles or instruments, which must include information regarding the identity, the address and number of titles that each person owns (s 12(7) CSL).

75. The ACS has adopted a revised policy in 2014 to perform an annual inspection of the registers of members and, where applicable, shareholders, of all co-operative societies, instead of half of the co-operative societies as was the case previously. So far in 2015, 68 inspections have been carried out and no non-compliance has been found in this respect. Also, no requests for ownership information in respect of co-operative societies have been received to date.

Enforcement provisions to ensure availability of information (ToR A.1.6)

76. The Phase 2 report found that enforcement provisions were in place with respect to all key requirements that ensure the availability of ownership and identity information. No material changes have occurred in the legal framework in this respect. It was also noted that a clear and comprehensive obligation for all trustees to keep identity information on trusts was only in force since 1 January 2013, and it was recommended that Cyprus monitor the practical implementation of this requirement.

77. In respect of exercising monitoring and enforcement powers, the Phase 2 report identified shortcomings regarding the obligations on companies and partnerships. Companies must keep a register of members and submit this register and any updates to the DRCOR, including with the annual return. No monitoring of these obligations had taken place in recent years, resulting in the fact that from 2008-2012 on average only 23% of the companies had filed its annual return. With respect to partnerships, no active policy was in place of monitoring the obligation on partnerships to provide up-to-date information to the Registrar on the partners. It is noted that most partnerships do not have to file annual returns to the DRCOR.

78. The Cypriot Competent Authority would mainly rely on the information in the DRCOR for the availability of ownership information on companies and partnerships. However, it was also noted in the Phase 2 report that the compliance rates for timely submission of incomes tax returns, which for companies should contain a statement whether there has been a change in shareholding, are also low. This did, therefore, also not provide assurance that up-to-date company ownership information is readily available.

79. Considering these findings, it was recommended in the Phase 2 report that Cyprus should ensure that its monitoring and enforcement powers are sufficiently exercised in practice to support the legal requirements which ensure the availability of ownership information on companies and partnerships.

Monitoring and enforcement by the DRCOR

80. Companies must keep a register of members and submit this register to DRCOR with its annual return. In addition, any transfer of shares must be filed with the Registrar within 14 days of entering it into the register of members. It was found in the Phase 2 report that compliance with filing annual returns was low, averaging 23% for the years 2008-2012. As the obligation on companies to keep a register of members was not directly monitored and enforced and the Cypriot authorities used the database of the DRCOR as the primary source to obtain ownership information on companies, Cyprus may have exchanged information that was not up-to-date during the three-year review period of the Phase 2 report.

81. The reformation and reorganisation of the DRCOR that started in May 2014 also includes the completion of the files of all registered companies. Companies were therefore requested to file any missing annual return(s). Mainly as a result of these efforts, more than 470 000 annual returns have been filed in relation to the years 2008-2014. As at July 2015, 53% of the registered companies has filed one or more annual returns for the years 2008-2014, and the DRCOR is working with these companies to further complete their files where there are still annual returns missing. Taking into account that a large number of companies have not responded at all and are in the final stages of being struck off (85 000 cases have been sent for official publication, see under A.1.1), the compliance rate would be almost 85% once these companies have indeed been struck off. The remaining 15% consists mainly of newly incorporated companies and companies that are in voluntary liquidation or strike off.

82. As mentioned under element A.1.1, new procedures are being implemented to monitor compliance with filing annual returns and changes in ownership to the DRCOR. The Project Team for the reform of the DRCOR

is currently in charge of the “cleansing” of the register of companies, while the newly established Compliance Team will be responsible for this monitoring. The Compliance Team currently comprises six staff members and may be expanded if necessary. The preliminary outline of the new procedures includes the sending of reminder letters one month before the annual return is due, the matching of the annual return information with changes filed during the preceding year, and the imposition of penalties where non-compliance occurs. The move towards an electronic database and full electronic filing, which is mandatory for annual returns relating to the years 2014 and onwards, should assist in this regard.

83. In respect of partnerships, details of all partners must be provided to the DRCOR upon registration, and any subsequent changes must be filed within seven days of such change. Almost 10% of the partnerships, mostly where one of the general partners is not a natural person, must also submit an annual return with up-to-date ownership information. The database with partnership registration will also become fully electronic, in the second half of 2015. Procedures for monitoring compliance will be implemented in a way similar to the monitoring of companies.

Monitoring and enforcement by the tax authorities

84. All companies must also be registered with the tax authorities. The Phase 2 report noted that there was a significant difference between companies registered with the DRCOR and with the tax authorities, as more than 30 000 companies were not registered with the tax authorities. It is expected that with the cleansing of the register of companies at the DRCOR, the two registers will become more aligned. The tax authorities now also receive monthly updates from the DRCOR to enable it to follow up on new company registrations. Regular updates are also sent to the tax authorities with respect to strike offs and liquidations.

85. From the tax year 2013 onwards, all companies must provide complete details of all shareholders and their number of shares in the beginning and at the end of the year. Prior to 2013, companies were already required to indicate whether a change in ownership had occurred. The Phase 2 report found that the compliance rate of the timely filing of tax returns was only around 35%, which did not provide assurance that up-to-date company ownership information is readily available. The Cypriot tax authorities have continued to collect outstanding tax returns for the tax years 2008-2011 through a specific campaign targeted on these years. As a result, 82% of the companies (the companies for which it has been established that they are no longer active have been removed from the basis for this percentage) have now filed all their tax returns for the tax years 2008-2011.

86. In 2012 and 2013, the compliance rate of the timely filing of tax returns as an absolute figure has not improved, as for 2013 it was still around 35%. One reason for this is that the focus of collecting tax returns has been on the years up until 2011. In addition, there are still many inactive companies registered with the tax authorities, which will be removed once they are struck off by the DRCOR. This will obviously have a positive effect on the compliance rate; the Cypriot authorities' estimation is that this rate would then be around 50% (based on the fact that for the years 2012 and 2013 approximately 72 000 and 67 000 companies filed their income tax returns on time, while the number of registered companies may eventually go down to around 130 000, as already indicated above under element A.1.1). Finally, the Cypriot authorities indicated that another reason for the 2013 compliance rate being relatively low, is that some specific accounting issues occurred, such as issues regarding the bail-in related to the financial crisis.

87. There are two indications that the overall compliance with filing tax returns (timely or not) has increased and can be expected to further increase. Firstly, the absolute number of tax returns filed has increased significantly in recent years, while the number of active companies has not necessarily grown. This is shown in the following table (please note that the figures do not distinguish in relation to what tax year the return was filed, they simply represent the number of corporate income tax returns received in the years reflected):

Number of income tax returns received from companies by calendar year

Year	Number of tax returns received
2010	92 399
2011	87 326
2012	105 718
2013	110 990
2014	140 039

88. Second, the compliance with filing annual returns to the DRCOR by active companies has increased significantly and includes compliance for the recent years 2012-2014. As up-to-date ownership information and financial statements must be included with the annual returns to the DRCOR, it can be expected that the next step for these companies is to file their tax returns (which involves some further work in order to comply with the tax rules). It also is a clear indication that the availability of relevant information is ensured.

89. The heightened monitoring and enforcement of the obligation on companies to (timely) submit tax returns is also one of the reasons that the

number of administrative penalties imposed by the tax authorities on companies has increased. In 2012, before specific actions were taken, 13 853 administrative penalties were imposed on companies, while in 2013 and 2014 this number was 20 862 and 16 126 respectively. The average penalty amount also went up from EUR 56 in 2012 to EUR 93 in 2014 (the maximum administrative penalty amount for not submitting the tax return is EUR 100).

Monitoring and enforcement of obligations on service providers

90. With the introduction of the ASL in December 2012, only lawyers, accountants and licensed companies are allowed to provide company and trust services as a professional. Lawyers and accountants remain under the supervision of the CBA and ICPAC respectively, while (other) companies holding a license under the ASL will be supervised by CySEC. Supervision by these three authorities covers compliance with both the ASL and the PSMLTFL. Under the PSMLTFL service providers are required, among other things, to keep certain ownership and identity information on their clients. A specific new obligation introduced by the ASL is that trustees must keep comprehensive identity information of all other trustees, settlors and beneficiaries.

91. In recent years, the CBA has enhanced its monitoring policy and the methodology for conducting on-site inspections, which was previously mainly based on the knowledge of the supervisors and random selection. It now uses a more objective risk based approach. For this purpose, all law firms were asked to complete a questionnaire which would provide a general picture of their size, type of business and clients, and procedures to obtain and keep information on their clients. On the basis of the responses, the law firms were divided in different risk categories: high, medium and low. Law firms that did not respond to the questionnaire were automatically allocated to the high risk category. The short term policy was to conduct on-site inspections on all high risk law firms in 2015, followed by medium and low risk law firms. Inspection cycles have been introduced, so that high risk law firms will be inspected every year, medium risk law firms every three years and low risk law firms every five years.

92. The staff within the CBA that carries out the inspections has increased from two to five since 2013. On-site inspections are usually conducted by two people. During the on-site inspections, a sample of client files is reviewed for the availability of ownership and identity information as well as other information that must be kept under the PSMLTFL. Compliance with requirements under the ASL may also be checked, although this has not yet been explicitly incorporated in the materials used for the inspections. Template due diligence forms and checklists for the inspections do include relevant ownership and identity information. In respect of non-listed

companies, both registered and beneficial owners must be identified. For partnerships, the partnership deed should be collected. Where the client is a trust, information on the trustees, settlors and beneficiaries should be kept. This means that for trusts it is checked whether all relevant identity information is kept, which is also a clear requirement under the ASL.

93. The development of template due diligence forms has resulted in the findings that law firms have a high degree of compliance with record keeping requirements on their clients. From January 2013 to March 2015, on-site inspections have been carried out on 69 of the approximately 1300 law firms, most of them under the former random selection policy. In ten cases, warning letters were sent, requesting the law firm to rectify the non-compliance found; in all these cases, the law firm has complied with the warning letter.

94. The ICPAC has outsourced the monitoring of its members to the Association of Chartered Certified Accountants (ACCA, the main accounting body in the United Kingdom). A methodology similar to the one now used by the CBA has been adopted. A questionnaire is sent out annually and accounting firms are allocated in different risk categories (high, medium and low) on the basis of the responses. A selection of accounting firms to be inspected is made three times a year, prioritising high risk firms. All ICPAC members are subject to monitoring through on-site inspections at least once every six years.⁶ Additional inspections may be carried out where appropriate, for example where serious deficiencies are found.

95. The ACCA has three staff permanently based in Cyprus to carry out the on-site inspections. They are supported by colleagues that are based in London, which are available to visit Cyprus and carry out on-site inspections if necessary. During the on-site inspections, a sample of client files is reviewed for the availability of ownership and identity information as well as other information that must be kept under the PSMLTFL. Since 2013, compliance with the requirements under the ASL is also specifically included. Detailed guidance has been issued by ICPAC on which information could be kept, which includes legal and beneficial ownership on companies, details of all partners in partnerships, and information on the trustees, settlors and beneficiaries of trusts.

96. In 2013 and 2014 respectively, 69 and 78 on-site inspections were conducted that included checks on compliance with the PSMLTFL and ASL. The authorities indicated that the accountants generally follow the guidance issued by ICPAC and comply with the obligations of the PSMLTFL and ASL.

6. Accounting firms with so-called “public interest clients” (such as listed companies and insurance companies) are subject to an on-site inspection at least once every three years.

It has therefore only been necessary to take disciplinary measures in a few cases as a result of the inspections.

97. With respect to company and trust service providers other than lawyers and accountants, the first priorities of CySEC after the entry into force of the ASL in January 2013, have been the issuance of licenses to company and trust service providers and the development of risk based tools for supervision. The licensing process includes a thorough examination of a service provider's governance structure and financial accounts. In addition, the service provider's manual containing procedures to comply with all obligations under the PSMLTFL is reviewed. As at March 2015, 122 licenses have been granted and 73 applications were pending.

98. CySEC has also set up a process of monitoring compliance with the PSMLTFL and ASL. The comprehensive monitoring will be carried out by a newly created department in CySEC, which currently has three staff and is intended to grow to twelve staff members over the next five years. Similar to the CBA and ICPAC, CySEC has also adopted a risk-based approach and has divided the service providers in four categories (high, medium-high, medium-low and low). The current plan is to conduct on-site inspections on high risk service providers annually, while other service providers may in the first instance only be subject to thematic on-site inspections based on their risk profile. All service providers will in any case be subject to desk-based review annually.

99. In 2014, four on-site inspections have been conducted by CySEC as a pilot. Some deficiencies have been identified, and all four service providers have rectified these within the three month timeframe given to them. In addition to these on-site inspections, it was detected that one service provider was offering services without a valid license; this case has been reported to the police and a public announcement was made by CySEC to warn the public.

Conclusion

100. Enforcement provisions are in place in respect of the relevant obligations to maintain ownership and identity information for all relevant entities and arrangements. Besides the entities and arrangements themselves, information may be available with the DRCOR (for companies and partnerships), with service providers (for all relevant entities and arrangements, in particular trusts), and with the tax authorities (for companies). In practice, the Cypriot competent authority mostly relies on the DRCOR for company and partnership ownership information, and on service providers for trust identity information.

101. Since the Phase 2 report, a major operation has been initiated to reform and reorganise the DRCOR. An important part of this initiative is

the cleansing of the register of companies. Companies must either file all outstanding annual returns or be struck off. This cleansing will be followed by active monitoring and enforcement of filing obligations, both on companies and partnerships, which should ensure the availability of company and partnership ownership information. A similar exercise is carried out by the tax authorities with respect to the timely submission of income tax returns, although the progress has been less in this respect than with the DRCOR. The tax register will be better aligned with the register of companies, outstanding tax returns should be filed, which is combined with heightened monitoring and enforcement.

102. Both initiatives have produced promising preliminary results, as many outstanding returns have come in at both the DRCOR and the tax authorities since the Phase 2 report. It should also be noted that, as indicated above, no availability issues have arisen with respect to exchanging ownership and identity information on relevant entities and arrangements during the two-year review period of this supplementary report. However, comprehensive results of the newly established monitoring and enforcement procedures are not yet available. It is therefore recommended that Cyprus monitor the implementation of its revised monitoring and enforcement procedures with respect to obligations to file up-to-date ownership information with respect to companies and partnerships with the DRCOR and the tax authorities.

103. Obligations on lawyers, accountants, and other company and trust service providers to keep ownership and identity information on their clients are monitored by the CBA, ICPAC and CySEC respectively. Although the monitoring by the CBA and ICPAC was found to be sufficient in the Phase 2 report, it has been further improved. Both authorities have recently revised their monitoring procedures to include checking compliance with the ASL and to take a more risk-based approach to monitoring compliance with the PSMLTFL. CySEC, which is responsible for monitoring company and trust service providers other than lawyers and accountants since 2013, has only carried out a few on-site inspections so far, as it had to focus on issuing licenses under the ASL.

104. The ASL introduced a specific obligation on Cypriot trustees to keep full identity information on any trust of which they are a trustee. Monitoring by the CBA and ICPAC has not revealed any significant non-compliance among lawyers and accountants. Although monitoring of the other trust service providers by CySEC is only in the preliminary stages, the number of licensees is currently only 122 (with 73 applications pending), while there are approximately 3 000 lawyers and 1 000 practising accountants, and compliance is not expected to be different for these other trust service providers. The recommendation that Cyprus should monitor the practical

implementation of the recently introduced requirement on trustees to keep comprehensive identity information on trusts, has therefore been removed.

105. Considering the improvements made, the rating of element A.1 has been upgraded to Largely Compliant.

Determination and factors underlying recommendations

Phase 1 determination	
The element is in place.	
Phase 2 rating	
Partially <u>Largely</u> Compliant.	
Factors underlying recommendations	Recommendations
Companies and partnerships are required to keep a register of members or partners, and companies and certain partnerships must submit up-to-date ownership information in an annual return to the Registrar. In the period 2008-2012, on average only 23% of the companies filed an annual return, and no monitoring and enforcement of this obligation has been carried out. Moreover, the compliance rates of the obligations to register for tax purposes and to submit tax returns are low. Non-compliance with these obligations may have resulted in Cyprus not exchanging up-to-date information, in particular because the Companies Register is the primary source used by the Cypriot authorities for obtaining ownership information on companies and partnerships.	Cyprus should ensure that its monitoring and enforcement powers are sufficiently exercised in practice to support the legal requirements which ensure the availability of ownership information on companies and partnerships.
A clear obligation on trustees to have information available on the other trustees, settlors and beneficiaries of the trust(s) with respect to which they act as a trustee, is only in force since 1 January 2013.	Cyprus should monitor the practical implementation of the recently introduced requirement on trustees to keep comprehensive identity information on trusts.

Phase 2 rating	
Partially Largely Compliant.	
Factors underlying recommendations	Recommendations
<u>The availability of company and partnership ownership information through annual returns submitted to the DRCOR (register of companies) and the tax authorities has significantly improved since the Phase 2 report. However, the new procedures regarding the monitoring and enforcement of compliance with these filing obligations are yet to be fully implemented.</u>	<u>Cyprus should monitor the implementation of its revised monitoring and enforcement procedures with respect to obligations to file up-to-date ownership information on companies and partnerships with the DRCOR and the tax authorities.</u>

A.2. Accounting records

Jurisdictions should ensure that reliable accounting records are kept for all relevant entities and arrangements.

General requirements (ToR A.2.1), Underlying documentation (ToR A.2.2) and 5-year retention standard (ToR A.2.3)

106. The Phase 2 report concluded that the Cypriot legal and regulatory framework contained requirements for all relevant entities and arrangements to keep reliable accounting records, including underlying documentation, for a period of at least six years. This is mainly ensured by comprehensive requirements in tax law (which covers companies, partnerships and co-operative societies) and in the Companies Law, but the laws governing partnerships and co-operative societies also contain requirements to keep accounting records. It was noted that comprehensive accounting record keeping obligations on certain trusts as well as on companies incorporated in Cyprus but managed and controlled in another jurisdiction had only been introduced recently, and that Cyprus should monitor the practical implementation of the recently introduced obligations.

107. The new obligations generally apply from the tax year 2013 onwards, and corporate tax returns for that year were only due in December 2014 (on paper) or March 2015 (electronically). The processing of these returns is still ongoing, and conclusions on compliance with comprehensive record keeping requirements cannot yet be drawn. The recommendation that Cyprus should monitor the practical implementation of the newly introduced obligations therefore remains.

Practical availability of accounting records

108. During the two-year review period of this supplementary report, some form of accounting information, either pertaining to specific transactions or comprehensive accounts, was sought in the vast majority of the EOI requests received by Cyprus, amounting to almost 1 000 cases. Peer input indicates that accounting information has been exchanged in almost all of these cases. Nevertheless, a number of peers also noted that a few cases remained where information was not available. These cases would typically relate to inactive companies that may have never complied with filing obligations with the tax authorities and the DRCOR. The peers also indicated that in some of these cases Cyprus was in the process of taking legal action.

109. In Cyprus, accounts are usually prepared on the basis of the International Accounting Standards, which is mandatory for companies under the Companies Law as well as for co-operative societies (s. 57A Co-operative Societies Law). As indicated in the Phase 2 report, tax law requires all resident companies, partnerships, trusts (through the trustee) and co-operative societies to have their accounts audited. Companies, as well as certain partnerships, are also required to submit financial statements with their annual return to the DRCOR. Public companies and private companies that are not small sized companies⁷ must also attach the auditor's report. Following an amendment to the Co-operative Societies Law in September 2013, all co-operative societies are now also required to appoint an external auditor to have their accounts audited (s. 19 Co-operative Societies Law), and to submit their audited accounts and the auditor's report to the ACS (s. 57A(5) Co-operative Societies Law). Previously, the audits were carried out by the Audit Service of Co-operative Societies, which has now been abolished.

110. In practice, audits are carried out by auditors who are members of ICPAC. As at 31 December 2014, 463 audit firms were registered with ICPAC. These are all subject to independent monitoring and review through on-site inspections by the ACCA at least once every six years. During the inspections the adherence to accounting and auditing standards is being assessed, as well as the competence of the individual auditors. Both procedural aspects and the quality of the work are reviewed. In 2013 and 2014, the ACCA carried out 116 and 117 audit monitoring inspections respectively. As was the case at the time of the Phase 2 report, only few disciplinary measures have been taken as a result of the inspections.

111. The system of mandatory audits combined with independent review of the auditors ensures that reliable accounting records, supported by

7. A company is a small sized company if at least two of the following thresholds are not exceeded: (i) total assets on the balance sheet of EUR 3 417 202 (ii) net turnover of EUR 7 005 246 (iii) 50 employees.

underlying documentation, are kept by all persons which have their accounts audited. Although this should cover all relevant entities and arrangements, it was found in the Phase 2 report that accounting records had not been available in a number of cases, in particular in cases where the person required to keep the accounting records did not comply with its general obligations to submit tax returns to the tax authorities and/or annual returns to the DRCOR. A general recommendation was therefore made for Cyprus to ensure that reliable accounting records, including underlying documentation, are being kept by all relevant entities and arrangements for a period of at least five years.

112. As described under element A.1.6, compliance with submitting annual returns to the tax authorities and the DRCOR has improved significantly since the Phase 2 report. Returns from previous years are now being collected and new procedures for monitoring and enforcing compliance are being developed. However, this is a work in progress and the new procedures are yet to be fully implemented. This is also demonstrated by the peer input, which indicates that, although accounting information was exchanged in the vast majority of the EOI requests, there are still cases where information was not available relating to companies that have never complied with filing obligations. It is therefore recommended that Cyprus monitors the implementation of its revised monitoring and enforcement procedures with respect to obligations to keep accounting information and file it with the DRCOR and the tax authorities.

113. Considering the improvements made, the rating of element A.2 has been upgraded to Largely Compliant.

Determination and factors underlying recommendations

Phase 1 determination	
The element is in place.	
Phase 2 rating	
Non-Largely Compliant.	
Factors underlying recommendations	Recommendations
Accounting records have not been available in a number of cases, in particular where the person required to keep the accounting records did not comply with its general obligations to submit tax returns and/or annual returns to the Companies Registrar.	Cyprus should ensure that reliable accounting records, including underlying documentation, are being kept by all relevant entities and arrangements for a period of at least five years.

Phase 2 rating	
Non-Largely Compliant.	
Factors underlying recommendations	Recommendations
<u>Although the availability of accounting information during the two-year review period of this supplementary report has significantly improved since the Phase 2 report, the new procedures regarding the monitoring and enforcement of compliance with these filing obligations are yet to be fully implemented.</u>	<u>Cyprus should monitor the implementation of its revised monitoring and enforcement procedures with respect to obligations to keep accounting information and file it with the DRCOR and the tax authorities.</u>
Comprehensive accounting record keeping obligations on certain trusts as well as on companies incorporated in Cyprus but managed and controlled in another jurisdiction have only been introduced recently.	Cyprus should monitor the practical implementation of the recently introduced obligations to keep comprehensive accounting information by certain trusts and companies incorporated in Cyprus but managed and controlled in another jurisdiction.

A.3. Banking information

Banking information should be available for all account-holders.

114. The Phase 2 report did not raise any concerns with respect to the availability of banking information. Banks must keep all relevant financial and transactional information as well as account files under the Banking Law and the PSMLTFL. These obligations have not changed since the Phase 2 report.

115. The size of the banking industry, which is supervised by the Central Bank of Cyprus (“Central Bank”), has decreased significantly since the Phase 2 report, showing a drop of 27% from March 2013 to March 2015 in the total amount of deposits held. However, the number of banks has remained almost the same, standing at 40 as at March 2015 compared to 41 as at March 2013. It should be noted that one of the banks is the Co-operative Central Bank with its 18 affiliate co-operative credit institutions. Since 2013, these co-operative credit institutions are also under the direct supervision of the Central Bank, bringing the total number of institutions to 58.

116. With the assistance of the International Monetary Fund, the system of supervision has been revised in 2013. The monitoring of compliance with obligations under the PSMLTFL is now carried out separate from the prudential supervision. However, the units conducting inspections are trained in both fields, and where issues are identified by one unit that may be relevant for the other unit, they will be flagged to that other unit. The unit responsible for monitoring compliance with the PSMLTFL currently comprises one director and seven staff. In addition, a request for tender for external auditors to take part in the on-site inspections is issued each calendar year.

117. As was the case before, the inspections of banks are planned on a risk-based approach. Under the new policy, data must be filed electronically by the banks twice per year for this purpose. This data includes the volume of deposits distinguished by a number of criteria, such as jurisdiction of origin, held by trusts or foundations, and beneficial owner information. On-site inspections are then planned on the basis of a risk assessment. Regardless of the outcome of this assessment, each bank will be subject to an on-site inspection at least once every three years. There are also four banks which are subject to an on-site inspection annually, as they are regarded essential for the Cypriot financial system and classified as significant institutions under the Single Supervisory Mechanism of the European Central Bank.

118. During the on-site inspections, the Central Bank takes samples of customer files, which are selected on the basis of the same risk assessment as was made for planning the inspection. The total sample checked ranges from 50-250 files, depending on the size of the bank and the risks identified, and for each file it is verified whether sufficient identity, transactional and other relevant information is being kept. An inspection report is drawn up by the Central Bank after the on-site inspection, and this is discussed at an exit meeting with the bank. The Central Bank indicated that, in general, banks do have identity and transactional information available. Any shortcomings are addressed by either the issuance of a warning letter and/or the imposition of a fine.

119. In the year 2013, the focus was on the revision of the supervision policy, and only a few on-site inspections were carried out, mostly by specialised third party audit firms instead of the Central Bank. On the basis of the findings, the Central Bank issued 4 warning letters and imposed one monetary fine. In 2014, 12 on-site inspections were carried out under the revised supervision policy, and a number of enforcement actions are currently being legally vetted. For 2015, a total of 15 on-site inspections are scheduled to be conducted, which include inspections on four co-operative credit institutions.

120. During the two-year review period of this supplementary report, banking information was requested in 263 cases. No peers raised any issues with respect to the availability of the information.

Determination and factors underlying recommendations

Phase 1 determination
The element is in place.
Phase 2 rating
Compliant.

B. Access to information

Overview

121. A variety of information may be needed in respect of the administration and enforcement of relevant tax laws and jurisdictions should have the authority to access all such information. This includes information held by banks and other financial institutions as well as information concerning the ownership of companies or the identity of interest holders in other persons or entities. This section of the report examines whether Cyprus' legal and regulatory framework gives to its competent authority access powers that cover all relevant persons and information, and whether the rights and safeguards that are in place would be compatible with effective exchange of information. It also assesses the effectiveness of this framework in practice.

122. It was found in the Phase 2 report that the Cypriot competent authority has sufficient access powers for EOI purposes. Domestic access powers were used to obtain information from Cypriot taxpayers, while access powers specifically designed for EOI purposes were used to obtain information from third party service providers (such as banks and lawyers). Two main issues were identified with respect to the practical application of these access powers during the three-year review period of the Phase 2 report, which resulted in recommendations for improvement.

123. Firstly, it was common practice of the Cypriot competent authority not to approach a taxpayer for information before that taxpayer had submitted its income tax return(s) for the year(s) the information sought by the requesting jurisdiction related to, even in cases where no direct relationship between the tax return and the information sought existed. This practice was abandoned at the end of 2011, and since then the Cypriot competent authority seeks to obtain information from a taxpayer for EOI purposes regardless of whether income tax returns are outstanding. This has had a clear positive impact on response times. The recommendation that Cyprus monitor the implementation of its revised policy in respect of obtaining information from its taxpayers, has been removed.

124. Second, information had been requested from third parties in a limited number of cases, and only from banks, while this may have been an alternative in cases where information could not be obtained from taxpayers. In respect of EOI requests received during the two-year review period of this supplementary report, information from third party service providers has been requested in many more cases than before, including from service providers other than banks in a few cases, and this process has proven to be adequate. The recommendation that Cyprus should use its information gathering powers to obtain information from all potential information holders, including directly from banks and other third parties, where appropriate, has therefore also been removed.

125. With respect to compulsory powers, the Phase 2 report noted a relatively high level of non-compliance in providing information to the Cypriot competent authority for EOI purposes, and that this had not been effectively dealt with. It was recommended that Cyprus uses its compulsory powers more effectively in exchange of information cases, in particular where bank information needs to be obtained from a Cypriot taxpayer.

126. It is clear that the level of compliance has increased significantly since the Phase 2 report. It has therefore only been necessary for the Cypriot authorities to use their compulsory powers in less than ten cases in relation to EOI requests received during the two-year review period of this supplementary report, and in all of these cases the information has been obtained in a reasonable timeframe. The formal prosecution can therefore be regarded as effective. The administrative process leading up to formal prosecution has also been simplified, as it is now indicated in the initial letter requesting the provision of information for EOI purposes that a failure to comply may lead to formal prosecution. In addition, it is indicated in that letter that an administrative penalty may be applied if non-compliance persists for more than 60 days.

127. Considering the significant improvements made by Cyprus, the rating for element B.1 has been upgraded to Compliant.

B.1. Competent Authority’s ability to obtain and provide information

Competent authorities should have the power to obtain and provide information that is the subject of a request under an exchange of information arrangement from any person within their territorial jurisdiction who is in possession or control of such information (irrespective of any legal obligation on such person to maintain the secrecy of the information).

128. Under Cyprus’ EOI arrangements the Minister of Finance or his authorised representative is the designated competent authority. The Commissioner of the Tax Department of the Ministry of Finance has been delegated this

task, and exercises the powers to obtain information for information exchange purposes. The day-to-day handling of EOI requests is the responsibility of the International Tax Affairs Division (ITAD). Both the Head of the ITAD and all ITAD officers are authorised to sign as competent authority.

Ownership and identity information (ToR B.1.1), Accounting records (ToR B.1.2) and Use of information gathering measures absent domestic tax interest (ToR B.1.3)

129. The Cypriot competent authority has two different access powers at its disposal to obtain information for EOI purposes. Where information is obtained from Cypriot taxpayers, which is the case in almost all cases, section 27 of the Assessment and Collection of Taxes Law (ACTL) is used, which provides general access powers for tax purposes. Even though this provision contains a domestic tax interest, the Cypriot authorities have so far considered that in all cases the information obtained was also relevant for domestic tax purposes and no challenges have been made in this respect.

130. In any case, section 6(9) ACTL is always available to the Cypriot competent authority, and provides that, for purposes of information exchange, any person may be required to furnish books, records or other documents or particulars or information under its control, possession, disposal or jurisdiction. During the review period of the Phase 2 report, this access power was only used to obtain information from banks, and only in a few instances.

131. Notwithstanding the existence of sufficient access powers, the Phase 2 report concluded that they had not been properly used with respect to EOI requests received in the three-year review period of the Phase 2 report. Firstly, it was common practice of the Cypriot competent authority, until the end of 2011, not to approach a taxpayer for information before that taxpayer had submitted its income tax return(s) for the year(s) the information sought by the requesting jurisdiction related to, even in cases where no direct relationship between the tax return and the information sought existed. It should be noted that this practice had already been abandoned at the time of publication of the Phase 2 report.

132. Second, the competent authority had not tried to obtain such information from other persons, such as a lawyer, who may also have had the information. In fact, information had not been sought from third parties other than banks during the three-year review period. These practices may have contributed to unnecessary delays in obtaining the information, and recommendations for improvement were made.

Gathering information in practice

133. The basic practical process for obtaining information for EOI purposes has not significantly changed since the Phase 2 report. Incoming requests are assigned to an ITAD officer, who will first check whether the requested information is readily available in the database of the Tax Department and, where the requested information relates to a company, in the database of the DRCOR. Where this is the case, this information is obtained immediately.

Obtaining information from Cypriot taxpayers

134. Where information needs to be obtained from a Cypriot taxpayer, there are two possibilities. If the taxpayer falls under the Nicosia district, the ITAD officer directly sends a letter to the taxpayer to obtain the information. This process applies regardless of the type of taxpayer, and not only where the taxpayer is a company as stated in the Phase 2 report. During the two-year review period of this supplementary report, more than 50% of the incoming requests related to a taxpayer in the Nicosia district.

135. If the taxpayer falls under the responsibility of any of the other districts, a letter will be sent to a designated contact person in the responsible district office asking him/her to obtain the relevant information from the taxpayer. The ITAD officer remains responsible for keeping track of the progress.

136. Taxpayers are generally given ten working days to provide the information. Extension of this period may be granted when requested by the taxpayer.

137. As mentioned above, it was common practice for the Cypriot competent authority not to approach a taxpayer for information before that taxpayer had submitted its income tax return(s) for the year(s) the information sought by the requesting jurisdiction related to. This practice has been abandoned at the end of 2011, and since then the Cypriot competent authority seeks to obtain information from a taxpayer for EOI purposes regardless of whether income tax returns are outstanding. Cyprus reports that this has had a positive impact on the response times to EOI requests, which is confirmed by the statistical information as shown in the table under element C.5.1, and is confirmed by peers. The recommendation that Cyprus monitor the implementation of its revised policy in respect of obtaining information from its taxpayers, has therefore been removed.

Obtaining information from third parties (including banks)

138. Where information needs to be obtained from third parties, such as a bank or a lawyer, the more specific process under sections 6(9) – 6(12) ACTL applies. Under this process, it is prescribed by law that the requesting

competent authority provides certain particulars and information. It was concluded in the Phase 2 report that this was consistent with the international standard, as the particulars and information were derived from Article 5(5) of the Model Tax Information Exchange Agreement and are meant to ensure that the foreseeable relevance of the EOI request is sufficiently demonstrated.

139. It was also noted in the Phase 2 report that the presence of these particulars is carefully checked when using this process, as it also involves the written consent of the Attorney-General, who will closely look at whether all legal prerequisites are satisfied. As the ITAD made sure this was the case, where necessary by requesting further information from the requesting jurisdiction, the Attorney-General had not refused its consent during the three-year review period of the Phase 2 report. Nevertheless, information had only been obtained under this process in 11 instances (in all these cases the information was requested from a bank), and it was recommended that Cyprus should use its information gathering powers to obtain information from all potential information holders, including directly from banks and other third parties, where appropriate.

140. The process to obtain information from third parties is directly handled by the ITAD officer who has been assigned the EOI request (regardless of the district the taxpayer falls under). This officer will check whether all legal requirements are met, and prepare a request for written consent from the Attorney-General, which is to be signed by the Commissioner of the Tax Department. During the two-year review period of this supplementary report, it has taken approximately ten days to obtain the Attorney-General's consent, and in no case has it been refused.

141. The ITAD officer then prepares a letter to the third party service provider, which is also signed by the Commissioner of the Tax Department. As for taxpayers, a period of ten working days is given to provide the information, and an extension of this period has rarely been requested.

142. In relation to EOI requests received during the two-year review period of this supplementary report, information was obtained from third parties in approximately 80 instances. In almost all of these cases, information was requested from a bank. The Cypriot competent authority indicated that it would typically obtain banking information from banks directly where (i) the account holder is not a Cypriot taxpayer, (ii) the requesting jurisdiction specifically indicates that the information should be retrieved directly from the bank, or (iii) the account holder is not co-operating in the first instance. In other cases, banking information would be sought from the Cypriot account holder directly.

143. In total, during the two-year review period of this supplementary report, banking information was requested in 263 cases, and was so far obtained and exchanged in 260 of those (the other three cases are pending). It

is noted that the percentage of cases where information was directly obtained from a bank increased from 7% at the time of the Phase 2 report, to 29% for the two-year review period of this supplementary report. Peer input suggests that information was received except in three cases where the name of the bank was not provided by the requesting jurisdiction and the information could not otherwise be located. It can therefore be concluded that the policy of obtaining banking information in Cyprus, which, depending on the circumstances, is either from the account holder or the bank, is adequate.

144. Information has also been obtained from other third parties in a limited number of cases. These include information obtained from a liquidator, an insurance company and a company and trust service provider. No difficulties have been encountered in these cases.

Conclusion

145. The information gathering practices of the Cypriot competent authority have significantly improved. Both the processes of obtaining information from Cypriot taxpayers and of obtaining information from third parties are now effectively used, and delays caused by these processes seem to have been eliminated. With respect to Cypriot taxpayers, the competent authority seeks to obtain information for EOI purposes regardless of whether income tax returns are outstanding, which had already been the practice since the end of 2011. Information from third parties has been requested in many more cases than before with respect to EOI requests received during the two-year review period of this supplementary report, and this process has proven to be adequate. Taking these improvements into account, the recommendations relating to these processes have both been removed.

Compulsory powers (ToR B.1.4)

146. The Cypriot legal and regulatory framework contains several compulsory powers to address non-compliance with a request to provide information to the authorities. These include formal prosecution, the imposition of an administrative penalty and search and seizure. This framework has not changed since the Phase 2 report. The Cypriot authorities indicated that in addition to these possibilities, they could also initiate a field audit on a taxpayer which would be triggered by non-compliance in an EOI context, but would cover all tax affairs of that taxpayer.

Use of compulsory powers in practice

147. It was found in the Phase 2 report that there was a relatively high level of non-compliance in providing information to the Cypriot competent

authority for EOI purposes, and that this had not been effectively dealt with. It was noted that this may have had specifically impacted the obtaining of bank information from Cypriot taxpayers, as this was the type of information of which peers had indicated most that it had not been provided during the three-year review period of the Phase 2 report. It was recommended that Cyprus uses its compulsory powers more effectively in exchange of information cases, in particular where bank information needs to be obtained from a Cypriot taxpayer.

148. In respect of EOI requests received during the two-year review period of this supplementary report, it should firstly be noted that compliance has increased significantly. This is partly the result of an awareness campaign among service providers, which may represent Cypriot companies by providing directors or a registered office for a company, and may therefore be involved in providing information that is requested from that company. Another reason for the increased level of compliance may be that the enforcement by the Cypriot authorities of the general filing obligations has been intensified, as described above under element A.1.6. This may have resulted in a move towards a culture of compliance in general.

149. Nevertheless, there have still been cases relating to the two-year review period of this supplementary report where compulsory powers needed to be used. It was reported in the Phase 2 report that as a whole, the Legal Department of the Tax Department initiates approximately 2 000 prosecutions per year for offences under the tax law, which all relate to a failure to provide documents, returns or other information to the tax authorities. It has been clarified that the figure of 2 000 actually referred to the number of outstanding prosecutions at that time. The actual statistics on the number of prosecutions that were presented to Court in the years 2011-2014 are as follows:

Approximate number of prosecutions (presented to Court) for not providing documents, returns or other information to the tax authorities

Year	Number of prosecutions
2011	800
2012	1 140
2013	1 100
2014	1 300

150. Most of these cases are settled out of Court by the taxpayer providing the information and paying a monetary penalty. Where the Court makes a decision in favour of the government, a fine and/or imprisonment may be imposed, and an order will be issued to comply and provide the information.

151. In 2013 and 2014, it has only been necessary to initiate formal prosecution in cases related to EOI in less than five cases each year. For this process to start, it is no longer necessary, as indicated in the Phase 2 report, to send a formal letter indicating that legal measures will be taken if no response is received once non-compliance is detected, as this is now included in the standard letter requesting the provision of information for EOI purposes. Once non-compliance is detected, the internal process in this respect requires the approval of the Commissioner of the Tax Department, upon which the ITAD officer drafts the indictment. The case is then referred to the Legal Department of the Tax Department, which is responsible for obtaining the consent of the Attorney-General. These are all routine procedures which usually take less than a month to complete.

152. Once they are officially presented to Court, the process may take between six months and a year to complete, depending on the schedule of the Court and the complexity of the case. One peer indicated that the information was not obtained in a timely manner in cases where the Cypriot authorities had to take the information holder to Court. However, there is an inherent delay in going through legal proceedings, and six months to a year does not seem unreasonable.

153. All but one of the cases related to EOI were settled out of Court, which means that the information was obtained and exchanged. In the other case, the Court ruled in favour of the government and the information was also obtained and subsequently exchanged.

154. As mentioned above, it is also possible to impose an administrative penalty for not providing information to the tax authorities. However, the Phase 2 report noted that this is only possible where the person that did not comply was given at least 60 days to do so. As in practice persons are given only ten working days to comply with a letter requesting the provision of information for EOI purposes, administrative penalties had not been imposed in this context, while it could be an alternative for the generally more lengthy formal prosecution process.

155. As a matter of policy, since the beginning of 2014 it is mentioned in the letter requesting the provision of information that an administrative penalty can be applied if there is a failure to comply after 60 days. This could be useful, for example, in cases where there may initially be indications that the person will comply and extensions of the deadline have been given. If after 60 days the information still has not been provided, the Cypriot authorities may decide to impose an administrative penalty instead of initiating formal prosecution. Although this has not occurred in relation to EOI requests received in the two-year review period of this supplementary report, the Cypriot authorities have imposed an administrative penalty in three cases related to EOI requests received after 30 June 2014.

156. The Cypriot authorities indicated that it has not been necessary to use search and seizure powers (which are also rarely used for domestic purposes), while in ten cases a field audit was initiated on the basis of an EOI request received in the two-year review period of this supplementary report.

157. A few peers referred to non-compliance by the information holder, and indicated that the Cypriot authorities had informed them that legal proceedings were underway. One peer confirmed that ultimately the information was exchanged, although with a delay.

Conclusion

158. It is clear that the level of compliance has increased significantly since the Phase 2 report. It has therefore only been necessary for the Cypriot authorities to use their compulsory powers in less than ten cases in relation to EOI requests received during the two-year review period of this supplementary report, and in all of these cases the information has been obtained in a reasonable timeframe. The formal prosecution can therefore be regarded as effective. The administrative process leading up to formal prosecution has also been simplified, as it is now indicated in the initial letter requesting the provision of information for EOI purposes that a failure to comply may lead to formal prosecution. In addition, it is indicated in that letter that an administrative penalty may be applied if non-compliance persists for more than 60 days.

159. The process for applying an administrative penalty is generally shorter than formal prosecution, but the possibility to use this in practice has only been recently introduced. Applying administrative penalties may provide an alternative in certain cases of non-compliance, eliminating at least some of the delay that is inherent to non-compliance. However, it should be recognised that imposing an administrative penalty does not guarantee that the information will be provided, and where non-compliance persists it may ultimately take longer to obtain the information through formal prosecution. In any case, Cyprus has successfully used its other compulsory powers where needed during the two-year review period.

Secrecy provisions (ToR B.1.5)

160. The Phase 2 report found that any secrecy obligation, except for legal privilege, is overridden by the power to access information for EOI purposes. This means, for example, that the Cypriot competent authority can obtain information on trusts without having to apply for a Court Order as provided for under section 11 of the International Trusts Law. Regarding legal privilege, the Phase 2 report concluded that there may be documentation covered by legal privilege which is not information produced (i) for the seeking or providing of legal advice or (ii) for the purposes of use in existing

or contemplated legal proceedings. However, this was expected to be of a limited scope (most importantly, if an advocate takes up a different role altogether, such as a trustee, agent or nominee, any communications and information are not covered by legal privilege), and it was also noted that it is not the practice of the Cypriot competent authority to obtain information from a lawyer where another person also holds the information.

161. During the two-year review period of this supplementary report, information has not been sought from a lawyer, nor did it seem necessary to do so as peers have not raised any issues in this respect. As more than 1 000 EOI requests were received in this period, it can be concluded that legal privilege has not formed an impediment for effective exchange of information.

Determination and factors underlying recommendations

Phase 1 determination	
The element is in place.	
Phase 2 rating	
Non-Compliant.	
Factors underlying recommendations	Recommendations
Until the end of 2011, it was the practice of the Cypriot competent authority not to approach a taxpayer for information before that taxpayer had submitted its income tax return(s) for the year(s) the information sought by the requesting jurisdiction related to, even in cases where no direct relationship between the tax return and the information sought existed. This has led to unnecessary delays in obtaining the information. Since the end of 2011, the Cypriot competent authority will try to obtain information from a taxpayer for EOI purposes where this information does not depend on the submission of an income tax return regardless of whether the income tax return has been filed.	Cyprus should monitor the practical implementation of its recently revised policy in respect of obtaining information from Cypriot taxpayers.

Phase 2 rating	
Non-Compliant.	
Factors underlying recommendations	Recommendations
The Cypriot competent authority did not use its specific information-gathering powers to obtain information from “third parties” other than banks, i.e. service providers such as lawyers, which may have had the information requested. In addition, these specific information-gathering powers, which include the written consent of the Attorney-General, have been used to obtain information from a bank directly in only a limited number of cases. This may have contributed to delays in responding to EOI requests.	Cyprus should use its information-gathering powers to obtain information from all potential information holders, including directly from banks and other third parties, where appropriate.
The relatively high level of non-compliance by Cypriot taxpayers in responding to letters to provide information has not effectively been dealt with in terms of an effective use of the available compulsory powers. This may have specifically impacted the obtaining of bank information from Cypriot taxpayers.	Cyprus should exercise its compulsory powers more effectively in exchange of information cases where information is not produced, in particular in respect of bank information.

B.2. Notification requirements and rights and safeguards

The rights and safeguards (e.g. notification, appeal rights) that apply to persons in the requested jurisdiction should be compatible with effective exchange of information.

Not unduly prevent or delay exchange of information (ToR B.2.1)

162. As described in the Phase 2 report, there is no requirement in Cyprus’ domestic legislation that the taxpayer under investigation or examination must be notified of a request. However, there is a requirement that, where information must be obtained from a third party, that person must be informed which foreign tax authority had requested the information. An exception to this requirement for cases where this notification may hinder the investigation was introduced in December 2012, and Cyprus was asked to monitor its practical implementation. The Cypriot authorities have reported that in none of the

approximately 80 cases where information was obtained from a third party did the requesting jurisdiction ask to refrain from such notification or otherwise indicate that it was a sensitive case. Peers have also not raised any issues in this respect. Considering that in 80 cases during the two-year review period the exception did not need to be applied, it may be concluded that this would only occur in exceptional circumstances. Cyprus is therefore no longer asked to monitor its practical implementation.

Determination and factors underlying recommendations

Phase 1 determination
The element is in place.
Phase 2 rating
Compliant.

C. Exchanging information

Overview

163. Jurisdictions generally cannot exchange information for tax purposes unless they have a legal basis or mechanism for doing so. In Cyprus, the legal authority to exchange information derives from its DTCs and other exchange of information mechanisms, as soon as they are given effect under domestic law. This section of the report examines whether Cyprus has a network of information exchange agreements that would allow it to achieve effective exchange of information in practice.

164. Since the Phase 2 report, the number of EOI partners has substantially increased to 103 as a result of the conclusion of six more DTCs and Cyprus becoming a party to the Multilateral Convention. In contrast to the position in the Phase 1 and the Phase 2 reports on Cyprus, no jurisdictions reported any delays or negative responses from Cyprus to their requests for entering into an information exchange agreement. The rating for element C.2 has therefore been upgraded to Compliant.

165. The Phase 2 report concluded that the Cypriot competent authority had not been able to respond to EOI requests in a timely manner, as less than 10% of the cases were answered within 90 days, only 20% were answered within 180 days, and approximately 40% was still pending. One of the main reasons identified was a lack of sufficient staff to handle all incoming requests. It was already noted that additional staff members had been allocated to the ITAD in late 2012 and early 2013, immediately after the end of the three-year review period of the Phase 2 report.

166. Response times to incoming EOI requests have clearly improved since the Phase 2 report, which is confirmed by peer input. Not only have new incoming requests been responded to more quickly, the Cypriot competent authority has also eliminated the backlog from the three-year review period of the Phase 2 report. However, dealing with this backlog has also been one of the reasons that internal deadlines were not always met during the two-year review period of this supplementary report, which resulted in

some EOI requests not being responded to in a timely manner. It is therefore recommended that Cyprus ensures that all EOI requests are responded to in a timely manner.

167. Notwithstanding that there remains some room for improvement, the organisational process for handling incoming EOI requests as well as the number of staff at the ITAD are now adequate to provide timely responses. Considering the developments, the rating for element C.5 has been upgraded to Largely Compliant.

C.1. Exchange of information mechanisms

Exchange of information mechanisms should allow for effective exchange of information.

168. The Phase 2 report noted that Cyprus had an exchange of information relationship with 53 jurisdictions, which generally contain sufficient provisions to enable Cyprus to exchange all foreseeably relevant information.

169. Since the Phase 2 report, Cyprus has signed new DTCs with Guernsey, Switzerland, Iceland, Bahrain, Georgia and Iran. Cyprus also signed a new DTC with Norway to replace the one dating from 1951. These new DTCs all contain an information exchange provision mirroring Article 26 of the OECD Model Tax Convention. In addition, Cyprus indicated that it has been confirmed through official diplomatic channels that its DTC with the former Socialist Federal Republic of Yugoslavia still applies to Bosnia and Herzegovina (in addition to Montenegro and Serbia). Finally, in July 2014 Cyprus became a party to the Multilateral Convention. This has substantially expanded the number of EOI partners, which now amounts to 103 (see Annex 2).

Other forms of exchange

170. Cyprus has endorsed the Standard for Automatic Exchange of Financial Account Information in Tax Matters (the AEOI Standard). It has committed to making the first exchanges under the AEOI Standard in 2017, and to that end it has joined a multilateral competent authority agreement under the Multilateral Convention.

171. Cyprus is already involved in exchanging information automatically with other EU member states. This takes place under the scope of *EU Council Directive 2003/48/EC* of 3 June 2003 on taxation of savings income in the form of interest payments, pursuant to which most EU members as well as other participating jurisdictions exchange data on an annual basis concerning the savings income received from Cypriot paying agents by taxpayers located abroad and vice versa. Automatic exchanges may also take place under the DTCs signed by Cyprus or *Council Directive 2011/16/EU* (as amended by *EU Council Directive 2014/107/EU*) on a reciprocal basis.

Foreseeably relevant standard (ToR C.1.1)

172. The Phase 2 report concluded that Cyprus' information exchange agreements signed at that time all allowed for exchange of information in accordance with the foreseeably relevant standard, except for the DTCs with Tajikistan and Turkmenistan. This position has not changed, as the new DTCs concluded by Cyprus since the Phase 2 report, as well as the Multilateral Convention, meet the foreseeably relevant standard.

173. The Phase 2 report also noted that a number of peers had indicated that Cyprus asked for clarifications regarding the foreseeable relevance of the information sought in a few cases. It was concluded that clarifications were asked in approximately 3% of the cases and that these were generally in accordance with the international standard. Cyprus indicated that in respect of EOI requests received in the two-year review period of this supplementary report, it rarely asked for clarifications. This is confirmed by peer input, which also suggests that where clarifications were asked, these were justified.

In respect of all persons (ToR C.1.2), Obligation to exchange all types of information (ToR C.1.3), Absence of domestic tax interest (ToR C.1.4), Absence of dual criminality principles (ToR C.1.5), Exchange of information in both civil and criminal tax matters (ToR C.1.6) and Provide information in specific form requested (ToR C.1.7)

174. The Phase 2 report found that all information exchange agreements concluded by Cyprus at that time (August 2013) allowed for exchange of information in accordance with the international standard, except the agreements with Singapore, Tajikistan and Turkmenistan. The new DTCs concluded by Cyprus and the Multilateral Convention also allow for exchange of information in accordance with the international standard. The DTC applicable between Cyprus and Bosnia and Herzegovina allows Cyprus to exchange information in accordance with the standard, provided that there are no limitations in the domestic law of Bosnia and Herzegovina.

In force (ToR C.1.8) and Be given effect through domestic law (ToR C.1.9)

175. As described in the Phase 2 report, the process in Cyprus to allow information exchange agreements to be brought into force is very quick. It usually takes between one week and up to a maximum of a few months before a notification can be sent to the treaty partner that ratification in Cyprus has been finalised. In general, bilateral agreements concerning tax or tax information exchange are given effect by publication in the official Gazette. For DTCs, this takes the form of an Order of the Council of Ministers.

176. Since the Phase 2 report, the previously concluded DTCs with Estonia, Lithuania, Portugal, Spain, Ukraine and the United Arab Emirates have entered into force. In addition, the newly signed DTCs with Guernsey, Iceland and Norway have also entered into force. This means that only the DTCs with Bahrain, Georgia, Iran, Kuwait and Switzerland are not yet in force. Cyprus has taken all necessary steps for these agreements to enter into force, except for the DTC with Iran which was signed very recently. In addition to the bilateral agreements, Cyprus also signed the Multilateral Convention in July 2014 and deposited its instrument of ratification in December 2014 for it to enter into force on 1 April 2015.

Determination and factors underlying recommendations

Phase 1 determination
The element is in place.
Phase 2 rating
Compliant.

C.2. Exchange of information mechanisms with all relevant partners

The jurisdictions' network of information exchange mechanisms should cover all relevant partners.

177. It was noted in the Phase 2 report that, since March 2012, Cyprus can honour the terms of a TIEA as a result of a change of its domestic law, and a policy statement was made that Cyprus was ready to negotiate exchange of information agreements regardless of the form, including TIEAs, without any conditions. However, some delays had been experienced in responding positively to all pending requests for negotiations. It was recommended that Cyprus ensures that it enters into exchange of information agreements (regardless of their form) with all relevant partners.

178. As before, comments were sought from Global Forum member jurisdictions in the course of the preparation of this supplementary report. No jurisdictions have indicated any negative responses from Cyprus to their request of negotiating an information exchange agreement. Also, no delays were reported in Cyprus answering such requests. Taking into account also the fact that Cyprus' exchange of information network has increased with a large number of partners through new bilateral agreements and the Multilateral Convention, the recommendation from the Phase 2 report has been replaced by the general recommendation for Cyprus to continue to develop its EOI network with all relevant partners.

179. Consequently, element C.2 is now considered to be “in place”, and its rating has been upgraded to Compliant.

Determination and factors underlying recommendations

Phase 1 determination	
The element is in place, but certain aspects of the legal implementation of the element need improvement.	
Factors underlying recommendations	Recommendations
Some delays have been experienced in Cyprus responding to requests from other jurisdictions to start negotiations with a view to enter into an information exchange agreement.	Cyprus should, expeditiously, enter into agreements for exchange of information (regardless of their form) with all relevant partners, meaning those partners who are interested in entering into an information exchange arrangement with it.
	Cyprus should continue to develop its EOI network with all relevant partners.
Phase 2 rating	
Largely Compliant.	

C.3. Confidentiality

The jurisdictions' mechanisms for exchange of information should have adequate provisions to ensure the confidentiality of information received.

Information received: disclosure, use, and safeguards (ToR C.3.1) and All other information exchanged (ToR C.3.2)

180. As noted in the Phase 2 report, all persons involved in handling EOI requests are bound by rules to keep the information coming to their knowledge in this respect confidential, and they can be penalised in cases of a breach of confidentiality. Measures taken by Cyprus to ensure confidentiality in practice were also considered sufficient. Neither the legal nor the practical framework with respect to ensuring the confidentiality of information in an EOI context has changed since the Phase 2 report. Also, Cyprus' exchange of information partners have not raised any issues in this regard.

Determination and factors underlying recommendations

Phase 1 determination
The element is in place.
Phase 2 rating
Compliant.

C.4. Rights and safeguards of taxpayers and third parties

The exchange of information mechanisms should respect the rights and safeguards of taxpayers and third parties.

Exceptions to requirement to provide information (ToR C.4.1)

181. The Phase 2 report did not raise any issues leading to a recommendation with respect to the legal and regulatory framework in relation to the rights and safeguards of taxpayers and third parties. It was also noted that no issues had been encountered in practice, nor had they been raised by any of Cyprus' exchange of information partners. This situation has remained the same for the two-year review period.

Determination and factors underlying recommendations

Phase 1 determination
The element is in place.
Phase 2 rating
Compliant.

C.5. Timeliness of responses to requests for information

The jurisdiction should provide information under its network of agreements in a timely manner.

182. During the three-year period reviewed in the Phase 2 report (1 July 2009 – 30 June 2012), Cyprus received 929 requests for information from more than 30 partners. The Phase 2 report concluded that the Cypriot competent authority had not been able to respond to EOI requests in a timely manner, as less than 10% of the cases were answered within 90 days, only 20% were answered within 180 days, and approximately 40% was still pending. Updates or interim replies were also not systematically sent. The lack of

sufficient staff was identified of one of the main reasons. On this basis, element C.5 was rated Partially Compliant.

Responses within 90 days (ToR C.5.1)

183. In the two-year review period of this supplementary report (1 July 2012 – 30 June 2014), Cyprus received a total of 1 061 requests for information. This is a significant increase compared to the three-year review period of the Phase 2 report, although this can partly be explained by Cyprus adopting a different method of counting the number of EOI requests. Instead of counting the requests per incoming letter, each subject involved for which information is requested is now counted separately. It should be noted in this respect that at least two group requests were received by Cyprus.

184. As shown in the table below, Cyprus indicated that it was in a position to provide a final response within 90 days in 33% of the cases, and within 180 days in 64% of the cases. Most of the other requests were processed within a year, and only 1% were wholly or partially outstanding as at 14 July 2015.

Response times for requests received during the two-year review period

		Jul-Dec 2012		2013		Jan-Jun 2014		Total num.	Average %	
		num.	%	num.	%	num.	%			
Total number of requests received*	(a+b+c+d+e)	207		503		351		1 061		
Full response**	≤90 days	69	33	147	29	133	38	349	33	
	≤180 days (cumulative)	105	51	294	58	278	79	677	64	
	≤1 year (cumulative)	(a)	146	71	465	92	348	99	959	90
	1 year+	(b)	58	28	28	6	2	1	88	8
Declined for valid reasons	(c)									
Failure to obtain information requested	(d)									
Requests still pending at date of review	(e)	3	1	10	2	1	0	14	1	

* A request is regarded as a single request in respect of each subject involved for which information is requested.

** The time periods in this table are counted from the date the request letter was received to the date on which the final and complete response was issued.

185. The statistics show a clear improvement in response times compared to the three-year review period of the Phase 2 report. Where peers have previously reported that they had not received responses to a significant number of queries even after two years or more, the peer input for this

supplementary report suggests that complete responses are mostly received in a timely manner. One peer indicated that complete information was not always provided in a timely manner. This peer noted that certain information was provided, but that this information did not meet its expectations, although it should also be noted that such an experience was not reported by other peers. Cyprus is in bilateral discussions with this peer to resolve any issues that may exist.

186. Overall, there still seems to be some room for improvement. Even though the organisational process and internal deadlines are based on the goal to provide responses within 90 days and seem adequate for this purpose, Cyprus has succeeded in this goal in only 33% of the cases during the two-year review period of this supplementary report.

187. This may partly be explained by a number of cases which are more complex in nature. Another reason may be that in some cases income tax return information is requested before the domestic deadline of submitting this to the Cypriot authorities. This is caused by the relatively long time (12-15 months after the end of the tax year) Cypriot taxpayers have to submit their annual income tax returns compared to other jurisdictions. However, this is necessary because most taxpayers must have their accounts audited, which takes some time but also results in more reliable income tax returns and underlying accounts.

188. Finally, the Cypriot competent authority indicated that internal deadlines have not always been met because of the heavy workload. Not only was the competent authority handling all new incoming EOI requests, it had also embarked on a mission to process the 368 EOI requests that were still outstanding from the three-year review period of the Phase 2 report. Dealing with this backlog obviously took up time of the competent authority staff which could not be spent on dealing with new incoming requests, mostly in the second half of 2012 and in 2013. Cyprus indicated that as at July 2015, none of the 368 requests were pending, meaning that the backlog has successfully been dealt with. One of Cyprus' main EOI partners has confirmed this in their input for this supplementary review.

189. The Cypriot competent authority expects that the response times will further improve now the backlog has been dealt with. Nevertheless, it is recommended that Cyprus ensures that all EOI requests are responded to in a timely manner.

190. It was mentioned in the Phase 2 report that where responses were delayed, partial replies and status updates were not sent in all cases, although this was standard policy of the Cypriot competent authority. In addition, it was noted that, where partial replies were sent, it was not always clearly

indicated what steps would be taken by Cyprus to obtain the remaining information and when a final reply may be expected.

191. Peer input for this supplementary report suggests that status updates are now provided most of the time, although a number of peers indicated that a status update was not always provided where response were delayed beyond 90 days. The Cypriot authorities indicated that the instances where a status update was not sent, almost all relate to the beginning of the two-year review period of this supplementary report, at the time that the competent authority was dealing with the backlog. The internal manual prescribes that an interim reply, which is regarded as a status update, be sent within two months of receipt of the EOI request, and that the requesting jurisdiction is informed about the status every four months thereafter as long as the request is outstanding. As there seems to be improvement on the sending of status updates, the relevant recommendation has been removed from the box, but Cyprus is still encouraged to ensure that status updates are provided in all cases.

Organisational process and resources (ToR C.5.2)

192. As mentioned above, the ITAD, a Division within the Ministry of Finance, is responsible for the day-to-day handling of exchange of information requests. The Phase 2 report found that the organisational process for handling incoming EOI requests, which was implemented in an internal manual, seemed adequate to provide timely responses. The process was not fully tested during the three-year review period of the Phase 2 report, in the sense that a lack of staff resulted in deadlines not being met. As described under C.5.1 and immediately below, this situation has now largely been resolved. No significant changes occurred in the organisational process since the Phase 2 report.

Resources

193. The Phase 2 report concluded that the number of staff handling EOI requests was insufficient during the three-year review period of that report, with only three or four officers to handle all incoming EOI requests. This had resulted in the build-up of a backlog of outstanding requests: deadlines could not be met, and cases of non-compliance were only detected at a late stage. In 2012 and 2013, additional staff was hired, bringing the total number of ITAD staff at nine (one Head of Division, seven officers and one secretary). It was recommended that Cyprus monitor that the resources allocated to its competent authority are sufficient to deal with all incoming EOI requests.

194. The number of staff at ITAD has remained the same since the Phase 2 report. It has proven to be sufficient to eliminate the backlog of outstanding requests, and to respond to new incoming EOI requests without creating a new

backlog. It is envisaged that the number of staff will remain stable (unless an unexpected event calls for more or less staff members), which should result in further improving response times. As the number of staff allocated to the Cypriot competent authority is now adequate to deal with all incoming EOI requests, the relevant recommendation has been removed.

Conclusion

195. Response times to incoming EOI requests have clearly improved since the Phase 2 report, which is confirmed by peer input. Not only have new incoming requests been responded to more quickly, the Cypriot competent authority has also eliminated the backlog from the three-year review period of the Phase 2 report. However, dealing with this backlog has also been one of the reasons that internal deadlines were not always met during the two-year review period of this supplementary report, which resulted in some EOI requests not being responded to in a timely manner. It is therefore recommended that Cyprus ensures that all EOI requests are responded to in a timely manner.

196. Notwithstanding that there is some room for improvement, the organisational process for handling incoming EOI requests as well as the number of staff at the ITAD are now adequate to provide timely responses. Considering the developments, the rating for element C.5 has been upgraded to Largely Compliant.

Absence of unreasonable, disproportionate or unduly restrictive conditions on exchange of information (ToR C.5.3)

197. As noted in the Phase 2 report, there are no specific legal and practical requirements in place which impose restrictive conditions on Cyprus' exchange of information practice.

Determination and factors underlying recommendations

Phase 1 determination
This element involves issues of practice that are assessed in the Phase 2 review. Accordingly no Phase 1 determination has been made.

Phase 2 rating	
Partially Largely Compliant.	
Factors underlying recommendations	Recommendations
During the three-year review period, Cyprus has been able to send final responses within 90 days in less than 10% of the cases, and almost 80% of the cases have been responded to after 180 days or are still outstanding. Of the 929 requests received, 15% have not received a response at all during the three-year review period, while another 25% have received a partial response.	Cyprus should ensure that it responds to EOI requests in a complete and timely manner.
During the three-year review period, Cyprus did not always provide a status update to its EOI partners within 90 days.	Cyprus should provide status updates to its EOI partners within 90 days where relevant.
Although new staff has recently been hired, there was not sufficient staff to handle all incoming EOI requests in a timely manner during the three-year review period.	Cyprus should monitor that the resources allocated to its competent authority are sufficient to deal with all incoming EOI requests.
<u>Response times to incoming EOI requests have clearly improved since the Phase 2 report, and this is confirmed by peers. Nevertheless, internal deadlines were not always met during the two-year review period of this supplementary report, mainly because Cyprus had to eliminate a backlog of outstanding requests. Not all EOI requests have therefore been responded to in a timely manner.</u>	<u>Cyprus should ensure that all EOI requests are responded to in a timely manner.</u>

Summary of determinations and factors underlying recommendations

Overall Rating		
LARGELY COMPLIANT		
Determination	Factors underlying recommendations	Recommendations
Jurisdictions should ensure that ownership and identity information for all relevant entities and arrangements is available to their competent authorities (<i>ToR A.1</i>)		
The element is in place.		
Phase 2 rating: Largely Compliant.	The availability of company and partnership ownership information through annual returns submitted to the DRCOR (register of companies) and the tax authorities has significantly improved since the Phase 2 report. However, the new procedures regarding the monitoring and enforcement of compliance with these filing obligations are yet to be fully implemented.	Cyprus should monitor the implementation of its revised monitoring and enforcement procedures with respect to obligations to file up-to-date ownership information on companies and partnerships with the DRCOR and the tax authorities.
Jurisdictions should ensure that reliable accounting records are kept for all relevant entities and arrangements (<i>ToR A.2</i>)		
The element is in place.		

Determination	Factors underlying recommendations	Recommendations
<p>Phase 2 rating: Largely Compliant.</p>	<p>Although the availability of accounting information during the two-year review period of this supplementary report has significantly improved since the Phase 2 report, the new procedures regarding the monitoring and enforcement of compliance with these filing obligations are yet to be fully implemented.</p>	<p>Cyprus should monitor the implementation of its revised monitoring and enforcement procedures with respect to obligations to keep accounting information and file it with the DRCOR and the tax authorities.</p>
	<p>Comprehensive accounting record keeping obligations on certain trusts as well as on companies incorporated in Cyprus but managed and controlled in another jurisdiction have only been introduced recently.</p>	<p>Cyprus should monitor the practical implementation of the recently introduced obligations to keep comprehensive accounting information by certain trusts and companies incorporated in Cyprus but managed and controlled in another jurisdiction.</p>
<p>Banking information should be available for all account-holders (<i>ToR A.3</i>)</p>		
<p>The element is in place.</p>		
<p>Phase 2 rating: Compliant.</p>		
<p>Competent authorities should have the power to obtain and provide information that is the subject of a request under an exchange of information arrangement from any person within their territorial jurisdiction who is in possession or control of such information (irrespective of any legal obligation on such person to maintain the secrecy of the information) (<i>ToR B.1</i>)</p>		
<p>The element is in place.</p>		
<p>Phase 2 rating: Compliant.</p>		
<p>The rights and safeguards (e.g. notification, appeal rights) that apply to persons in the requested jurisdiction should be compatible with effective exchange of information (<i>ToR B.2</i>)</p>		
<p>The element is in place.</p>		
<p>Phase 2 rating: Compliant.</p>		
<p>Exchange of information mechanisms should allow for effective exchange of information (<i>ToR C.1</i>)</p>		
<p>The element is in place.</p>		
<p>Phase 2 rating: Compliant.</p>		

Determination	Factors underlying recommendations	Recommendations
The jurisdictions' network of information exchange mechanisms should cover all relevant partners (<i>ToR C.2</i>)		
The element is in place.		Cyprus should continue to develop its EOI network with all relevant partners.
Phase 2 rating: Compliant.		
The jurisdictions' mechanisms for exchange of information should have adequate provisions to ensure the confidentiality of information received (<i>ToR C.3</i>)		
The element is in place.		
Phase 2 rating: Compliant.		
The exchange of information mechanisms should respect the rights and safeguards of taxpayers and third parties (<i>ToR C.4</i>)		
The element is in place.		
Phase 2 rating: Compliant.		
The jurisdiction should provide information under its network of agreements in a timely manner (<i>ToR C.5</i>)		
This element involves issues of practice that are assessed in the Phase 2 review. Accordingly no Phase 1 determination has been made.		
Phase 2 rating: Largely Compliant.	Response times to incoming EOI requests have clearly improved since the Phase 2 report, and this is confirmed by peers. Nevertheless, internal deadlines were not always met during the two-year review period of this supplementary report, mainly because Cyprus had to eliminate a backlog of outstanding requests. Not all EOI requests have therefore been responded to in a timely manner.	Cyprus should ensure that all EOI requests are responded to in a timely manner.

Annex 1: Jurisdiction’s response to the review report⁸

Cyprus welcomes the conclusion of the Phase 2 Supplementary Peer Review Report and concurs with the overall rating allocated.

Cyprus is fully committed to continue implementing the international standards of transparency and exchange of information for tax purposes. As acknowledged in this Report, Cyprus has a comprehensive Legal and Regulatory Framework which is effectively enforced. We are also fully committed to sustain this performance through close monitoring and also address the Recommendations of this Report in a swift manner through the completion of all relevant actions that are already in process.

Cyprus would like to express its sincere thanks for the hard and meticulous work of the Assessment Team and its support, as well as the excellent collaboration between us. We would also like to express our appreciation and thanks to the work of the Secretariat, the PRG as well as the members of the Global Forum, whose contribution greatly facilitated the whole process.

8. This Annex presents the jurisdiction’s response to the review report and shall not be deemed to represent the Global Forum’s views.

Annex 2: List of all exchange-of-information mechanisms in force

EU regulations

Cyprus exchanges information under:

- *EU Council Directive 2011/16/EU* of 15 February 2011 on administrative co-operation in the field of taxation. This Directive provides *inter alia* for exchange of banking information on request for taxable periods after 31 December 2010 (Article 18). All EU members were required to transpose it into national legislation by 1 January 2013, which was done by Cyprus through Law N.205(I)-2012 which entered into force on 28 December 2012. It should be noted that this Directive was amended by *EU Council Directive 2014/107/EU*, requiring all EU members to implement the Standard for Automatic Exchange of Financial Account Information in Tax Matters, as developed by the OECD, by 31 December 2015⁹. The current EU members, covered by this Council Directive, are: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom; and
- *EU Council Directive 2003/48/EC* of 3 June 2003 on taxation of savings income in the form of interest payments. This Directive aims to ensure that savings income in the form of interest payments generated in an EU member state in favour of individuals or residual entities being resident of another EU member state are effectively taxed in accordance with the fiscal laws of their state of residence. It also aims to ensure exchange of information between member states.

9. The deadline for Austria is 31 December 2016.

Bilateral and multilateral arrangements

The Convention on Mutual Administrative Assistance in Tax Matters, as amended in 2010 (the Multilateral Convention), was signed by Cyprus on 10 July 2014, and entered into force for Cyprus on 1 April 2015.

Exchange of information relationships providing for tax information exchange on request as at August 2015, in alphabetical order:

	Jurisdiction	Type of Eol arrangement	(Date) signed/extended	Date entered into force
1	Albania	Multilateral Convention	Signed	1 April 2015
2	Andorra	Multilateral Convention	Signed	Not yet in force in Andorra
3	Anguilla ^a	Multilateral Convention	Extended	1 April 2015
4	Argentina	Multilateral Convention	Signed	1 April 2015
5	Armenia	DTC	17 January 2011	19 September 2011
6	Aruba ^b	Multilateral Convention	Extended	1 April 2015
7	Australia	Multilateral Convention	Signed	1 April 2015
8	Austria	DTC	20 March 1990	1 January 1991
		Protocol	21 May 2012	1 April 2013
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
9	Azerbaijan	Multilateral Convention	Signed	Not yet in force in Azerbaijan ^c
10	Bahrain	DTC	9 March 2015	
11	Belarus	DTC	29 May 1998	12 February 1999
12	Belgium	DTC	14 May 1996	8 December 1999
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
13	Belize	Multilateral Convention	Signed	1 April 2015
14	Bermuda ^a	Multilateral Convention	Extended	1 April 2015
15	Bosnia and Herzegovina	DTC	29 June 1985	8 September 1986
16	Brazil	Multilateral Convention	Signed	Not yet in force in Brazil

	Jurisdiction	Type of Eol arrangement	(Date) signed/ extended	Date entered into force
17	British Virgin Islands ^a	Multilateral Convention	Extended	1 April 2015
18	Bulgaria	DTC	30 October 2000	3 January 2001
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
19	Cameroon	Multilateral Convention	Signed	Not yet in force in Cameroon ^d
20	Canada	DTC	2 May 1984	3 September 1985
		Multilateral Convention	Signed	1 April 2015
21	Cayman Islands ^a	Multilateral Convention	Extended	1 April 2015
22	Chile	Multilateral Convention	Signed	Not yet in force in Chile
23	China (People's Republic of)	DTC	25 October 1990	5 October 1991
		Multilateral Convention	Signed	Not yet in force in China
24	Colombia	Multilateral Convention	Signed	1 April 2015
25	Costa Rica	Multilateral Convention	Signed	1 April 2015
26	Croatia	EU Directive 2011/16/EU	1 July 2013	1 July 2013
		Multilateral Convention	Signed	1 April 2015
27	Curaçao ^b	Multilateral Convention	Extended	1 April 2015
28	Czech Republic	DTC	28 April 2009	26 November 2009
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
29	Denmark	DTC	11 October 2010	7 September 2011
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
30	Egypt	DTC	18 December 1993	14 March 1995
31	El Salvador	Multilateral Convention	Signed	Not yet in force in El Salvador
32	Estonia	DTC	15 October 2012	8 October 2013
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
33	Faroe Islands ^e	Multilateral Convention	Extended	1 April 2015

	Jurisdiction	Type of Eol arrangement	(Date) signed/ extended	Date entered into force
34	Finland	DTC	15 November 2012	27 April 2013
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
35	France	DTC	18 December 1981	1 April 1983
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
36	Gabon	Multilateral Convention	Signed	Not yet in force in Gabon
37	Georgia	DTC	13 May 2015	
		Multilateral Convention	Signed	1 April 2015
38	Germany	DTC	18 February 2011	16 December 2011
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	Not yet in force in Germany
39	Ghana	Multilateral Convention	Signed	1 April 2015
40	Gibraltar ^a	Multilateral Convention	Extended	1 April 2015
41	Greece	DTC	30 March 1968	16 January 1969
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
42	Greenland ^e	Multilateral Convention	Extended	1 April 2015
43	Guatemala	Multilateral Convention	Signed	Not yet in force in Guatemala
44	Guernsey ^a	DTC	15 July 2014	4 July 2015
		Multilateral Convention	Extended	1 April 2015
45	Hungary	DTC	30 November 1981	24 September 1982
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
46	Iceland	DTC	13 November 2014	22 December 2014
		Multilateral Convention	Signed	1 April 2015
47	India	DTC	13 June 1994	21 December 1994
		Multilateral Convention	Signed	1 April 2015

	Jurisdiction	Type of Eol arrangement	(Date) signed/ extended	Date entered into force
48	Indonesia	Multilateral Convention	Signed	1 May 2015
49	Iran	DTC	4 August 2015	
50	Ireland	DTC	24 September 1968	7 December 1970
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
51	Isle of Man ^a	Multilateral Convention	Extended	1 April 2015
52	Italy	DTC	24 April 1974	9 June 1983
		Protocol	4 June 2009	23 November 2010
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
53	Japan	Multilateral Convention	Signed	1 April 2015
54	Jersey ^a	Multilateral Convention	Extended	1 April 2015
55	Kazakhstan	Multilateral Convention	Signed	1 August 2015
56	Korea	Multilateral Convention	Signed	1 April 2015
57	Kuwait	DTC	15 December 1984	25 September 1986
		New DTC	5 October 2010	
58	Latvia	EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
59	Lebanon	DTC	18 February 2003	14 April 2005
60	Liechtenstein	Multilateral Convention	Signed	Not yet in force in Liechtenstein
61	Lithuania	DTC	21 June 2013	17 April 2014
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
62	Luxembourg	EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
63	Malta	DTC	22 October 1993	11 August 1994
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
64	Mauritius	DTC	21 January 2000	12 June 2000
		Multilateral Convention	Signed	Not yet in force in Mauritius

	Jurisdiction	Type of Eol arrangement	(Date) signed/ extended	Date entered into force
65	Mexico	Multilateral Convention	Signed	1 April 2015
66	Moldova	DTC	28 January 2008	3 September 2008
		Multilateral Convention	Signed	1 April 2015
67	Monaco	Multilateral Convention	Signed	Not yet in force in Monaco
68	Montenegro	DTC	29 June 1985	8 September 1986
69	Montserrat ^a	Multilateral Convention	Extended	1 April 2015
70	Morocco	Multilateral Convention	Signed	Not yet in force in Morocco
71	Netherlands	EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
72	New Zealand	Multilateral Convention	Signed	1 April 2015
73	Nigeria	Multilateral Convention	Signed	Not yet in force in Nigeria ^f
74	Norway	DTC	24 February 2014	8 July 2014
		Multilateral Convention	Signed	1 April 2015
75	Philippines	Multilateral Convention	Signed	Not yet in force in the Philippines
76	Poland	DTC	4 June 1992	7 July 1993
		Protocol	22 March 2012	9 November 2012
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
77	Portugal	DTC	19 November 2012	1 January 2014
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
78	Qatar	DTC	11 November 2008	20 March 2009
79	Romania	DTC	16 November 1981	8 November 1982
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
80	Russia	DTC	5 December 1998	17 August 1999
		Protocol	7 October 2010	2 April 2012
		Multilateral Convention	Signed	1 July 2015

	Jurisdiction	Type of Eol arrangement	(Date) signed/ extended	Date entered into force
81	San Marino	DTC	27 April 2007	18 July 2007
		Multilateral Convention	Signed	Not yet in force in San Marino
82	Saudi Arabia	Multilateral Convention	Signed	Not yet in force in Saudi Arabia
83	Serbia	DTC	29 June 1985	8 September 1986
84	Seychelles	DTC	28 June 2006	27 October 2006
		Multilateral Convention	Signed	Not yet in force in the Seychelles ⁹
85	Singapore	DTC	24 November 2000	8 February 2001
		Multilateral Convention	Signed	Not yet in force in Singapore
86	Sint Maarten ^b	Multilateral Convention	Extended	1 April 2015
87	Slovak Republic	DTC	15 April 1980	30 December 1980
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
88	Slovenia	DTC	12 October 2010	14 September 2011
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
89	South Africa	DTC	26 November 1997	8 December 1998
		Protocol	1 April 2015	
		Multilateral Convention	Signed	1 April 2015
90	Spain	DTC	14 February 2013	28 May 2014
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
91	Sweden	DTC	25 October 1988	13 November 1989
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
92	Switzerland	DTC	25 July 2014	
		Multilateral Convention	Signed	Not yet in force in Switzerland

	Jurisdiction	Type of Eol arrangement	(Date) signed/ extended	Date entered into force
93	Syria	DTC	15 March 1992	22 February 1995
94	Tajikistan	DTC	29 October 1982	26 August 1983
95	Thailand	DTC	27 October 1998	4 April 2000
96	Tunisia	Multilateral Convention	Signed	1 April 2015
97	Turkey	Multilateral Convention	Signed	Not yet in force in Turkey
98	Turkmenistan	DTC	29 October 1982	26 August 1983
99	Turks and Caicos Islands ^a	Multilateral Convention	Extended	1 April 2015
100	Ukraine	DTC	29 October 1982	26 August 1983
		New DTC	8 November 2012	1 January 2014
		Multilateral Convention	Signed	1 April 2015
101	United Arab Emirates	DTC	27 February 2011	1 January 2014
102	United Kingdom	DTC	20 June 1974	18 March 1975
		EU Directive 2011/16/EU	15 February 2011	1 January 2013
		Multilateral Convention	Signed	1 April 2015
103	United States	DTC	19 March 1984	31 December 1985
		Multilateral Convention	Signed	Not yet in force in the United States

Notes: a. Extension of the Multilateral Convention by the United Kingdom.

b. Extension of the Multilateral Convention by the Kingdom of the Netherlands.

c. Azerbaijan deposited its instrument of ratification on 29 May 2015, and the Multilateral Convention will enter into force on 1 September 2015.

d. Cameroon deposited its instrument of ratification on 30 June 2015, and the Multilateral Convention will enter into force on 1 October 2015.

e. Extension of the Multilateral Convention by the Kingdom of Denmark.

f. Nigeria deposited its instrument of ratification on 29 May 2015, and the Multilateral Convention will enter into force on 1 September 2015.

g. The Seychelles deposited its instrument of ratification on 25 June 2015, and the Multilateral Convention will enter into force on 1 October 2015.

Annex 3: List of all laws, regulations and other material consulted

Co-operative societies/co-operative credit institutions

- Co-operative Societies Law of 1985 to (No. 3) of 2013
- Business of Credit Institutions Laws of 1997 to (No.3) of 2013
- Law Regulating Companies Providing Administrative Services and Related Matters (Amending) Law of 2014
- Recapitalisation of the Co-operative Central Bank Ltd/Central Body of the Cooperative Credit Institutions, Decree of 2013
- Recapitalisation of the Co-operative Central Bank of Cyprus/Central Body (CCB/CB) (Amendment) (No1) Decree of 2014
- Relationship Framework Agreement between the Republic of Cyprus and the Cooperative Central Bank Ltd, December 2013
- Law Relating to the Establishment and Operation of a Management Unit for the Participation of the Republic of Cyprus in the Ownership Structure of Credit Institutions, 2014

Tax legislation

- Assessment and Collection of Taxes Law (Amendment) (No. 78) of 2014
- Tax Circular 2014/2 – 30 January 2014

Other materials

- Companies Law (Amending) (No. 4) Law of 2015
- Materials used in relation to the supervision of lawyers, accountants and other company and trust service providers by the CBA, ICPAC and CySEC respectively

Annex 4: Persons interviewed during the on-site visit

Officials from the Tax Department

Officials from the Ministry of Finance

Official from the Department of Registrar of Companies and Official Receiver (DRCOR)

Project Manager for the Reform and Restructuring of the DRCOR

Official from the Central Bank of Cyprus

Official from the Cyprus Securities and Exchange Commission

Officials from the Authority of Cooperative Societies

Representatives from the Cyprus Bar Association

Representatives from the Institute of Certified Public Accountants of Cyprus

Head of the Unit for Combating Money Laundering (“MOKAS”)

For more information
**Global Forum on Transparency and
Exchange of Information for Tax Purposes**
www.oecd.org/tax/transparency
www.eoi-tax.org
Email: gftaxcooperation@oecd.org