

Banking regulations in Cyprus for companies

November 2018

Introduction

On 2 November 2018 the Central Bank of Cyprus ("CBC") issued a revised Circular titled "Shell companies/ Entities", through which it sets out the definition of shell companies and clarifies in which cases a bank in Cyprus is permitted to engage in business relations with new as well as existing Cyprus and foreign companies. This Circular applies with immediate effect.

Taking into account the provisions of the CBC Circular, this Information Sheet provides in its own simplified way:

1. The cases in which a company can open and maintain a bank account in Cyprus.
2. A simple-to-follow flowchart for assessing whether each company case may be permitted to open a bank account in Cyprus.

1. When can a company maintain a banking relation in Cyprus?

According to the CBC Circular, companies (whether new or existing) meeting the below conditions as described in **Part A** ("Cyprus companies") and **Part B** ("Foreign companies") would be permitted to have banking relations in Cyprus, irrespective of whether or not they are considered as shell companies.

A. Cyprus companies

- If the company has physical presence in Cyprus (i.e. relevant substance including meaningful mind and management) OR operations in Cyprus, then **banking in Cyprus is permissible**.
- If the company has "established economic activity" in Cyprus, then **banking in Cyprus is permissible**.

"Established economic activity" specifically includes amongst other:

- Holding shares in other companies with identifiable UBO's
 - Companies holding assets (both tangible and intangible) such as real estate in or out of Cyprus, ship, aircraft, portfolio of investments, debt and financial instruments
 - Facilitation of currency trades and asset transfers, corporate mergers, asset management activities and trading of shares
 - Acting as treasurer for group companies or manages the activities of the group
 - Any other legitimate business, with identifiable UBO's
- If neither of the above are met, then the Cyprus company is considered to be a shell company. However, as Cyprus companies are legally obliged to prepare audited financial statements AND provided they are tax resident in Cyprus or in any other co-operative jurisdiction, then **banking in Cyprus may be permissible** (subject to bank's risk-based approach).

B. Foreign companies

- If the foreign company has physical presence OR operations in the jurisdiction where the company is incorporated/ registered, then **banking in Cyprus is permissible**.
- If the foreign company has “established economic activity” in the jurisdiction where it is incorporated/ registered, then **banking in Cyprus is permissible**.

“Established economic activity” specifically includes amongst other:

- Holding shares in other companies with identifiable UBO’s
 - Companies holding assets (both tangible and intangible) such as real estate in or out of Cyprus, ship, aircraft, portfolio of investments, debt and financial instruments
 - Facilitation of currency trades and asset transfers, corporate mergers, asset management activities and trading of shares
 - Acting as treasurer for group companies or manages the activities of the group
 - Any other legitimate business, with identifiable UBO’s
- If neither of the above are met, then the foreign company is considered to be a shell company. However, if the foreign company prepares audited financial statements AND is tax resident in Cyprus or in any other co-operative jurisdiction, then **banking in Cyprus may be permissible** (subject to bank’s risk-based approach).

IMPORTANT NOTE:

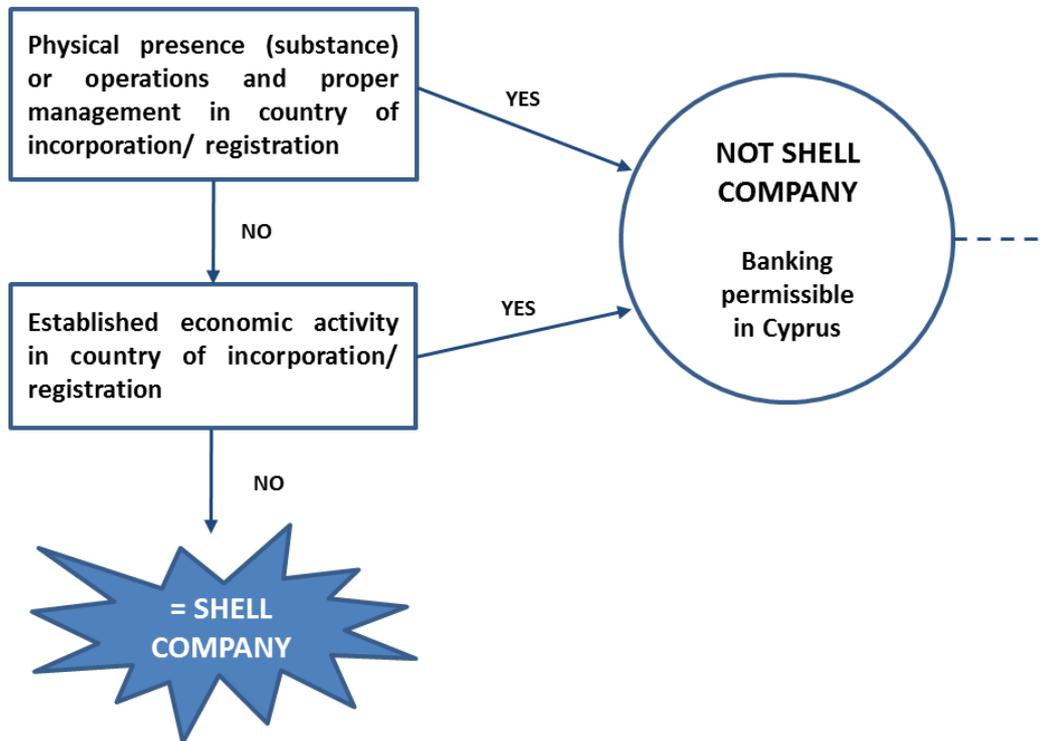
In ALL cases described in Parts A and B above, it goes without saying that the company/ client case must satisfy all applicable legislation (e.g. AML) and relevant due diligence/ KYC checks, must have clear identification of UBOs, be engaged in legitimate and permissible business, satisfy checks on source of funds and ongoing transactional behavior.

Some specific examples of foreign companies for which banking relations in Cyprus can be permissible in accordance with the CBC Circular:

1. If a company was registered/ incorporated in a foreign jurisdiction (e.g. UK or BVI) and has moved its tax residency in Cyprus and prepares audited financial statements, then **banking in Cyprus may be permissible** (subject to bank’s risk-based approach).
2. If a foreign company (e.g. BVI) has redomiciled to Cyprus (now being registered in Cyprus), then **banking in Cyprus may be permissible** using same conditions as Part A above.
3. If a foreign company (e.g. BVI) is purely engaged in company holding activities (i.e. holding shares in Cyprus and/or other company/ies), then this activity on its own can be considered a permissible/ accepted established economic activity, thus **banking in Cyprus may be permissible** (subject to bank’s risk-based approach) as per Part B above.

2. Flowchart for assessing whether banking relation is permissible

Shell companies as per CBC circular (dd 2 Nov 2018)



Now must check the following:

