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The International Comparative Legal Guide to:

Corporate Governance 2014

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A practical cross-border insight into corporate governance

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Cyprus

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1 Setting the Scene - Sources and Overview

1.1 What are the main corporate entities to be discussed?

Corporate governance concerns all types of companies, both private and public. However, this chapter will focus on corporate governance rules, applicable to public limited companies listed on the Cyprus Stock Exchange ("**CSE**").

Pursuant to the Cyprus Companies Law, Cap. 113, as amended (the "**Companies Law**"), public limited companies must have at least seven shareholders and two directors and the minimum share capital of such companies must be approximately Euro 25,650. While, public companies are able to issue securities to the public at large, these must be offered on a pre-emptive basis to existing shareholders in proportion to their current shareholding, unless a special resolution is passed with a two thirds' majority of the votes cast in an extraordinary general meeting ("**EGM**") authorising the board of directors to offer any new shares to one or more third parties without first offering them to the existing shareholders.

The Department of the Registrar of Companies and Official Receiver ("**ROC**") is responsible for the registration, compliance and winding up of companies, while the approvals for listing on the CSE are granted by the Cyprus Securities and Exchange Commission ("**CySEC**"), once it is satisfied that all necessary requirements are met.

1.2 What are the main legislative, regulatory and other corporate governance sources?

The Companies' Law includes the main relevant legislative provisions. This Law initially mirrored the provisions of the UK Companies Act 1948, nonetheless it has not followed the subsequent amendments of the UK legislation. Cyprus courts, however, seem to follow to a great extent the UK developed case law. The Companies' Law governs the provisions of a Cyprus company's memorandum and articles of association. Public and private companies may also adopt wholly or partly the model regulations contained in Table A of the Companies Law.

Moreover, common law principles also apply, such as those concerning the fiduciary duties of directors, or for example the duty to act in good faith and for the benefit of the company.

Apart from the above, the relevant legislative framework also consists of:

- The Cyprus Securities and Stock Exchange Laws of 1993-2007, as amended (and relevant regulations).
- The Cyprus Securities and Exchange Commission Law 73(I)/2009, as amended.
- The Transparency Requirements Law, Law 190(I)/2007, as amended (the "**Transparency Law**").
- The Investment Services and Activities and Regulated Markets Law, 144(I)/2007.
- The Inside Information and Manipulation of the Market (Abuse of the Market) Law, 116(I)/2005, as amended (the "**Market Manipulation Law**").
- The Corporate Governance Code (3rd Revised Edition), September 2012 (the "**Code**").

CySEC issues directives and circulars regularly, complementing the corporate governance regulatory framework. The primary responsibilities of CySEC, which is a public corporate body, include the supervision of the CSE, of issuers of securities listed, the licensing of investments firms and the imposition of administrative sanctions and penalties for infringement of the stock market laws and regulations.

Following the 2000 recession of the Cyprus stock market, in 2002 the CSE issued the first corporate governance code aiming to introduce a set of corporate governance principles, offering additional protection to the shareholders of listed companies. Currently, the third revised version of the code applies. The Code includes a set of legal principles and not inflexible legal rules. It is only obligatory for companies listed on the Main Market and, in part, it is also mandatory for companies listed on the Parallel Market. Its primary aims include the strengthening of the monitoring role of the independent members of the board in listed companies, the promotion of greater transparency and accountability, the protection of minority shareholders, as well as the safeguarding of the independence of the board as a whole in its decision-making. Although private companies are not bound by the provisions of the Code, they are encouraged to regard it as guidance and use it as a best practice model.

Moreover, since Cyprus's accession to the European Union in 2004, Cyprus implements and complies in full with all relevant European Directives and Regulations.

1.3 What are the current topical issues, developments, trends and challenges in corporate governance?

Cyprus has been approved as a country from which companies can be listed on the Hong Kong stock exchange, having gone through the process of determining whether shareholder protection under Cyprus law is at least equal to the Hong Kong Companies Ordinance Code. The trend is to use the shares of a Cyprus company for the purposes of listing rather than submitting for listing the shares of companies holding the underlying assets, thus utilising the more flexible and shareholder friendly structure of the

Cyprus companies. Thus, more and more Cyprus companies, with their good regulatory environment and favourable tax structures, find themselves listed on foreign stock exchanges.

Recent studies show a positive trend in adopting the Code, with almost 50% of public companies complying at least partially with the Code. There is of course always further margin for improvement, especially since international collective investment schemes are becoming increasingly important for Cyprus.

One of the main challenges in corporate governance is raising the low proportion of women on boards. Currently, women represent 7.7% of the board members of the largest public listed companies, which is significantly lower than the EU average. Although there has been an improvement in the proportion of women on the boards during the last 5 years, the European Commission considers the rate of change as too slow. The target is to reach 40% women on non-executive boards of publicly listed companies, according to the new EU Directive on gender balance among non-executive directors (currently awaiting endorsement by the European Council of Ministers). In any case, it is encouraging that the proportion of women board chairs and CEOs is above the respective EU average.

Furthermore, following the Eurogroup's decision for rescue by means of the bail-in method, in March 2013, a number of laws are intended to be introduced, for the purposes of complying with Cyprus' obligations under the Memorandum of Understanding with Troika. For example, pursuant to a proposed bill, the directors of companies will be held as personally liable for not paying withholding taxes and for the fraudulent submission of tax returns in relation to a company.

2 Shareholders

2.1 What rights and powers do shareholders have in the operation and management of the corporate entity/entities?

Shareholders entrust the day-to-day management and operation of their companies to the directors. The Companies Law, however, reserves certain matters for the competence and decision of the shareholders, through the passing of shareholders' resolutions.

Such reserved matters include the change of the company's name, the alteration of the objects of the company, the amendment of its memoranda or articles of association, the increase or reduction of its share capital, the variation of the classes of the shareholders' rights, in certain cases the authorisation of the acquisition by the company of part of its own shares, the approval of an amalgamation or scheme of reconstruction, the appointment and removal of directors and auditors and the fixing of the remuneration of the same, the payment to a director for loss of office, the approval of final dividend, as proposed by the directors, the approval of the statutory report, the consent for allowing financial assistance for the purchase of the company's own shares (in cases of private companies) and the passing of a resolution for the voluntary winding up of the company.

It must further be noted that the provisions of directive 2007/36/EC, which aim to promote effective shareholder control for the encouragement of sound corporate governance in listed companies, have been transposed into the Companies Law, thus strengthening the ability of shareholders to exercise their rights in a more efficient and extensive manner. The changes introduced include, amongst others, the ability of shareholders of publicly traded companies to participate in meetings by electronic means and electronic voting, the promotion of equal treatment of shareholders, and the introduction of new terms in relation to the notices convening the general meetings.

2.2 What responsibilities, if any, do shareholders have as regards the corporate governance of their corporate entity/entities?

The Companies Law does not in principle entrust any corporate governance responsibilities to the shareholders. Nonetheless, the Code suggests that there should be a constructive use of the annual general meetings ("**AGMs**") of a company, in that they should be used by the board to communicate with shareholders and encourage their participation therein. According to provision D.1.4 of the Code, the directors should make sure that the agenda and the overall organisation of the general meeting do not eliminate substantial dialogue and the decision-making process, while proposals submitted should be adequately and clearly explained to the shareholders, who should be given sufficient time to evaluate them.

Although the Companies Law does not provide shareholders with any corporate governance responsibilities, it nonetheless seeks to encourage a smoother and more effective exercise of shareholder voting rights and their decision-making process. In any case, corporate governance practices should stem from the principle of equitable treatment of all shareholders including minority shareholders and the procedures at general meetings should guarantee the equitable treatment of all shareholders.

2.3 What shareholder meetings are commonly held and what rights do shareholders have as regards them?

AGMs and EGMs are regulated by the Companies Law and by each company's articles. The first AGM must be held within eighteen months from the date of incorporation and thereafter yearly but no later than fifteen months from the date of the previous AGM. In AGMs, the consideration of the financial statements, the auditors' and directors' reports, the election of directors and the appointment and remuneration of auditors are discussed.

EGMs can be held following a requisition of shareholders who hold no less than one tenth (1/10) of the company's shares that have a right of vote at general meetings or can be convened by the directors of the company, pursuant to the company's articles. At the general meetings the shareholders have the right to pass resolutions. Ordinary resolutions require a simple majority of votes of those present and voting, extraordinary resolutions require a seventy-five per cent majority and special resolutions require a seventy-five per cent majority plus a notice of twenty-one days.

2.4 Can shareholders be liable for acts or omissions of the corporate entity/entities?

Cyprus companies are legal bodies with a separate personality from their members; in general, the liability of shareholders is limited to the amount of the capital they contribute to the shares for which they subscribe. The principle according to which a company must be treated as an entity with its own distinct rights and obligations that differ from the rights and obligations of its shareholders or even its subsidiary or mother companies, is subject to certain exceptions, which are nevertheless more readily applicable to private rather than public companies. What may be said though is that if the controlling shareholders use the company for their own personal purposes, they may be found to be liable.

2.5 Can shareholders be disenfranchised?

The articles of association (including regulation 22 of Table A) usually provide that unless all calls on shares or all the sums that have become payable by a shareholder to the company have been paid, the shareholder is not allowed to vote at general meetings. There are also provisions relating to forfeiture of shares that have not been paid, however this is unlikely to apply to public listed companies as the market practice requires that the shares of these companies are paid for upon subscription.

According to section 201 of the Companies Law, an offeror has a statutory right to buy out the minority shareholders and, subject to at least ninety per cent of the shareholders accepting the offer, the offeror can oblige the remaining ten per cent to sell their shares.

2.6 Can shareholders seek enforcement action against members of the management body?

Cyprus courts do not generally interfere with the internal management of a company. Nevertheless, minority shareholders have the right to bring a derivative action, which is actually a personal action against a director on behalf of the company. Matters of fraud against the minority, negligence, default, breach of duty or breach of trust are only some instances in which a derivative action can be initiated. The company is joined as a nominal defendant to the derivative action. In cases where shareholders wish to take action in respect of their personal rights against the company, they do so in their personal capacity and not through a derivative action.

Section 202 of the Companies Law provides that any shareholder, who complains that the affairs of the company are being conducted in an oppressive manner towards some of the shareholders, may apply for a court order. If the court is convinced that the winding-up of the company would unfairly prejudice the rights of the minority, it may step in and either regulate the workings of future corporate affairs or order the company or the majority shareholders to purchase the complainant's shares. If the personal rights of a shareholder are infringed, then such shareholder can proceed with a personal action against the wrongdoer to rectify such a violation.

2.7 Are there any limitations on, and disclosures required, in relation to interests in securities held by shareholders in the corporate entity/entities?

Those dealing with a company are generally protected by the disclosure of information. The Companies' Law contains several provisions for disclosure which target transparency and best practice in corporate governance. Specifically, these are in relation to the registers of members, directors and secretaries, shareholdings, debenture-holders, charges, statutory financial obligations and annual returns.

Moreover, a person can perform a search in the file of a company through the ROC in exchange of a nominal fee. Although for public listed companies such a search will not reveal the names and percentages of the shareholders, an interested party may ask the company secretary to inspect the register of members or to receive a copy thereof, on payment of a small fee.

According to the Transparency Law, specific information has to be publicly disclosed. Specifically, in relation to interests in securities held by shareholders in the company, it provides that a shareholder, who acquires or disposes of shares which incorporate voting rights, has the obligation to disclose to (a) the company, and (b) to CySEC the percentage of voting rights the shareholder possesses. This is done if, as a result, in case of an acquisition, this percentage reaches or exceeds, or, in case of a disposal, it reaches or falls below the limits of five per cent, ten per cent, fifteen per cent, twenty per cent, thirty per cent, fifty per cent or seventy-five per cent of the total voting rights.

3 Management Body and Management

3.1 Who manages the corporate entity/entities and how?

As a principle, the directors of a Cyprus company are responsible for its management. The Companies Law provides for a one-tier structure under which the board of directors performs its functions. The board exercises its powers as a whole, hence such powers are not delegated to individual directors; however, specific committees can be established, as mentioned hereunder below. In any case, an individual director can represent the company if so authorised by a board resolution or an attorney be appointed pursuant to a power of attorney granted by the company.

The Code confirms the principle that a listed company should be governed by an effective board, which provides guidance and controls the company. According to section A.2 of the Code, the board should include a balance of independent non-executive and remaining directors, so that no individual director or a small group of directors can dominate the board's decision-making. Non-executive directors should also have sufficient skills, knowledge and experience, since their views carry significant weight in the decision-making process.

The Code also suggests the formation of three different board committees. Namely, the nomination committee, which leads the process for board appointments and makes relevant recommendations, the remuneration committee, which makes recommendations regarding the remuneration policy, and the audit committee, which according to section C.3.2 submits proposals to the board regarding the appointment, termination and remuneration of the auditors and keeps under continuous review the scope, results and cost-effectiveness of the audit and the independence and objectivity of the auditors. Also, the Code encourages the board to establish more committees, if necessary.

3.2 How are members of the management body appointed and removed?

According to section A.4 of the Code, the procedure for the appointment of new directors should be formal and transparent. Directors should be competent, suitable and able to participate on the board. They should resign at regular intervals or at least every three years and they can then submit themselves for re-election at the general meeting.

The first directors are appointed either by being named in the articles of association or pursuant to a regulation providing the subscribers with the power to appoint them. Subsequent directors are elected by the shareholders in the manner set out in the articles. Also, it is possible that the articles contain provisions empowering the board to appoint a director, either to fill a casual vacancy or as an addition to the existing directors, provided that the maximum number of directors specified in the articles is not affected.

By virtue of section 178 of the Companies Law, a company can, by ordinary resolution, remove directors prior to the expiration of their period in office, irrespective of any provisions included in the articles. However, the director concerned retains the right to submit relevant written representations.

The Companies Law does not set any requirements regarding the age or nationality of directors. However – according to standard practice – in order for a company to be considered as a Cyprus tax resident, the majority of the board members should be Cyprus residents. This is one of the criteria evidencing that a company's management and control is exercised in Cyprus.

3.3 What are the main legislative, regulatory and other sources impacting on contracts and remuneration of members of the management body?

Pursuant to the provisions of the Code, companies should establish a formal and transparent procedure for developing a policy on executive directors' remuneration and for ascertaining the remuneration packages. Directors should not be involved in deciding their remuneration. According to section B.1.1. of the Code, a remuneration committee should be established, consisting of non-executive directors, in order to make recommendations to the board on the executive directors' context and level of remuneration, which is finally approved by the general meeting.

The remuneration package should, of course, be satisfactory to attract and retain capable directors for the successful management of the company. Nevertheless, companies should avoid paying more than what is necessary for this purpose. The Code also advises that a proportion of the remuneration of executive directors should be structured in a way so as to link rewards to corporate and individual performance.

In all cases, according to Article 76 of Table A regulations, the general meeting is able to decide on the directors' remuneration. Pursuant to section 188 of the Companies Law, the relevant details must be included in the financial statements presented before the general meeting for approval.

3.4 What are the limitations on, and what disclosure is required in relation to, interests in securities held by members of the management body in the corporate entity/entities?

Subject to the provisions of the Market Manipulation Law, when directors hold confidential information about the company, they cannot purchase or sell any of its financial instruments. Breach of the said provisions involves serious sanctions. Directors cannot purchase or sell the company's financial instruments during closed periods or without the prior written consent of the board. Moreover, directors are required to report all relevant transactions to CSE and CySEC and publish such information on the company's website.

Further, every company must maintain a register regarding the shares held by each director in that company or in any other subsidiaries or affiliated companies.

3.5 What is the process for meetings of members of the management body?

A company's articles include the provisions in relation to the process for the meetings of the directors and they normally concern the required quorum, the necessary notice and the voting requirements. There is no statutory requirement regarding the minimum number of meetings per year; again, the articles may regulate this.

Section A.1.1 of the Code provides that the board should meet regularly at least six times a year, while pursuant to section A.1.2, the meetings should have a formal schedule of matters. The Code advises that the chairman of the board is responsible for the proper running of the meeting and should ensure that all issues on the agenda are sufficiently supported by all available information. Furthermore, the minutes of a meeting, should contain details on the resolutions taken and should be at the disposal of all directors as soon as possible following the meeting and, in any case, before the next one.

A director who has a personal interest in a matter is obliged to declare his interest and, depending on the articles, he may be excluded from voting or he may not be counted at all for quorum purposes.

3.6 What are the principal general legal duties and liabilities of members of the management body?

In general, directors must act in good faith, in the best interests of the company and for the benefit of its members (the shareholders) as a whole, and in doing so they should have regard for the long-term consequences of their decisions and the impact on the company's reputation in the market.

Directors owe a duty to the company to manage it according to the Cyprus and EU Laws and Regulations, as well as to its memorandum and articles of association. When in breach of this fiduciary duty, directors shall be liable for any loss caused either by illegal acts or by *ultra vires* acts.

Moreover, a duty of care in common law exists, which includes a duty not to act negligently in managing the affairs of the company. However, section 383(1) of Companies Law provides that if directors act honestly and reasonably in light of the specific circumstances of the case, they cannot be held liable.

The directors are also responsible for the settlement of any conflict of interest between them and the shareholders and any associated or related parties. One of their roles is to monitor the company, its activities and related risks.

Furthermore, a number of statutory provisions impose various notification, disclosure and reporting duties on the directors, especially regarding the acquisition and disposals of shares of the company. Breach of statutory duties may result in sanctions and penalties.

3.7 What are the main specific corporate governance responsibilities/functions of members of the management body and what are perceived to be the key, current challenges for the management body?

The boards of directors of the companies (to which the Code applies) decide on a number of issues exclusively reserved for them. These include, among others, the objects and strategic policy of the company, the annual budget and business plan, the significant capital expenditures, the mergers, acquisitions and allocations of the company's assets, as well as the adoption and any changes in the application of accounting principles.

The Code recommends that an adequate number of non-executive directors that have sufficient knowledge and experience to assist in decision making should be included in the board. Such non-executive directors should make up no less than one third of the board.

Moreover, the board should maintain a comprehensive system of internal control to safeguard the members' investments and the company's assets. According to section C.2.1, directors should annually evaluate the efficiency of the internal control systems, review the procedures utilised to confirm the accuracy and validity of the information provided to investors and should include their

findings in the Report on Corporate Governance. Their review should cover all internal control, financial, operational, compliance and risk management systems. The board should also certify annually therein that it took no cognisance of any violation of the applicable Laws and Regulations.

The key current challenges for the boards of directors arise out of the recent banking crisis of 2013. The Independent Commission for the Future of Cyprus Banking Sector, which was set up by the Central Bank of Cyprus, identified, in its October 2013 report, that the weaknesses in corporate governance in Cyprus' banks were a severe and a crucial cause behind the banking crisis and iterated the importance of having the right structures, as well as the right attitude, to promote correct behaviour in the interests of all stakeholders. As a corollary of this banking crisis, the view is now widespread that a stricter framework and higher standards of corporate governance is required.

3.8 What public disclosures concerning management body practices are required?

The sole requirement introduced by the Code as regards disclosure of practices is the board's duty to issue the annual Report on Corporate Governance. This report includes *inter alia* an assessment of internal control and other financial, operational and compliance systems, a verification that the company has not violated any relevant Laws and Regulations and a reference to any loans granted, to any guarantees provided and to the company's accounts. Furthermore, in the first part of the report, the company states that the principles of the Code are being implemented and in the second part, confirms that it complies with such and if not, gives appropriate explanations. This matter is examined further in question 4.2 (B) below.

3.9 Are indemnities, or insurance, permitted in relation to members of the management body and others?

Provisions in relation to the indemnification of directors can be contained in the company's articles or a contract. Nevertheless, such provisions shall be void regarding any negligence, default, breach of duty or breach of trust of which the director may be guilty, concerning the company.

A director can in fact obtain insurance against personal liability in the exercise of his duties as director of the company and the company may pay the insurance premium.

4 Transparency and Reporting

4.1 Who is responsible for disclosure and transparency?

The company or its administrative and management bodies are responsible for the formulation and publication of the required information.

4.2 What corporate governance related disclosures are required?

The primary sources of the corporate governance disclosure requirements under Cyprus law include the Transparency Law, the Code, the Market Manipulation Law and the Companies Law.

A. Transparency Law

The disclosure provisions of the Transparency Law apply to legal entities whose transferable securities have been admitted to trading on a regulated market. The following disclosures should be made in relation to such entities:

1. Financial disclosures

(a) As soon as possible, and at the latest within four months after the end of each financial year, every issuer must disclose its annual financial report comprising of:

(i) the annual financial statements;

(ii) the directors' report; and

(iii) a statement by the board, the general and financial directors confirming that (a) the annual financial statements have been prepared in accordance with the applicable accounting standards, (b) they provide a true and fair view of the assets and liabilities and financial standing of the entity, and (c) the director's report provides a fair view of the development and performance of the business of the entity and the business reflected in consolidated accounts, if any, and an outline of the major risks and uncertainties faced.

(b) At the latest within two months after the end of the first half of the financial year, every issuer of shares or debt securities must disclose half-yearly financial reports containing:

(i) interim financial statements;

(ii) an interim management report containing, *inter alia*, a detailed and extensive economic analysis, declaration of income deriving from extraordinary activities, comparative economic analysis with the previous year, the principal risks and uncertainties for the remaining 6 months and any other substantial information which affects or could affect the evaluation; and

(iii) a statement by the board, the general and financial directors confirming that (a) the annual financial statements have been prepared in accordance with the applicable accounting standards, (b) they provide a true and fair view of the assets and liabilities and financial standing of the entity and the business reflected in consolidated accounts, if any, and (c) the interim management report provides a fair view of the information contained therein.

(c) An interim management statement must be published during the first and second half of the financial year, including an explanation of the material events and transactions that have taken place and their impact on the financial position of the entity, together with a general description of the financial position and performance thereof.

(d) Quarterly financial reports may need to be published if:

(i) it is decided by the board of the CSE;

(ii) the regulated market imposes such an obligation; or

(iii) it is decided by the company's own initiative.

(e) Indicative results must further be disclosed in relation to the net gain or loss after tax for the full financial year as soon as possible or at the latest within two months from the end of the financial year, and must be accompanied by a report which includes, at least the following:

(i) a detailed and extensive economic analysis of the results;

(ii) a declaration of any income from non-recurring or extraordinary activities;

(iii) an extensive and detailed comparative economic analysis of the figures for the period in comparison to the respective previous period evidencing the changes and differences between the results of the two periods; and

(iv) any other substantive information.

Where an issuer has complied with the requirement under (a) above, it will be exempt from the obligation to disclose indicative results for the full financial year.

An amendment in the Transparency Law specifies that where the issuer is the Republic or another state, a regional or local authority of Cyprus or another state, an international public organisation, the European Central Bank, the Central Bank, or any other national bank of another Member State it will not be bound by the above disclosure requirements. Furthermore, entities which issue exclusively debt securities which are traded on a regulated market whose nominal value per unit is at least Euro 100,000 or the equivalent currency thereof are also exempt from the above requirements.

2. On-going obligations

(a) An issuer acquiring or disposing of its own shares must disclose, at the latest within the next business day from the date of the acquisition or disposal, the total amount of the said shares, provided the shares amount to or exceed 5% or 10% of the total voting rights in the case of an acquisition or amount to or fall below the said thresholds in the case of a disposal.

(b) Where an increase or decrease of the total capital and voting rights occurs, a disclosure must be made by the issuer at the end of each calendar month during which such increase or decrease has occurred.

(c) Upon receipt of any notification, the company must disclose all the information contained therein as soon as possible and in any event before the close of the next business day following receipt of the notification.

(d) Where a draft proposal for the amendment of the company's memorandum and articles is made, the company must notify the CySEC and the regulated market upon which the securities are traded as soon as possible and at the latest before the general meeting for the examination of the proposed amendment is convened.

(e) When a change is made to the rights attaching to various classes of shares, including the variation of rights attaching to derivative securities, the company must disclose the said change immediately.

3. Establishing communication between the company and its security holders

(a) Additional obligations arise for the purpose of ensuring equal treatment between shareholders holding shares of the same class. Particularly, the company must ensure that all necessary facilities and information are available allowing the shareholders or security holders to exercise their rights. The company is specifically obliged to provide information in relation to the place, date and agenda of meetings, the total number of shares and their voting rights and to further publish announcements and issue circulars in relation to the allocation and distribution of dividends or the issue of new shares, including information on any arrangements for allotment, subscription, cancellation or conversion.

4. Disclosures relating to the acquisition or disposal of shares which attach voting rights

(a) Where a shareholder acquires or disposes of shares attaching voting rights in the company, the company and CySEC must be notified of the percentage of rights held by such shareholder if, in the case of an acquisition, the percentage of voting rights reaches or exceeds the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% or in the case of a disposal the voting rights reach or fall below the said thresholds. The same obligations arise where an equivalent event occurs, changing the breakdown of the voting rights and where the voting rights are *inter alia* held by a third party. Similar provisions are applicable where financial instruments held in the company entitle the holder to acquire shares attaching voting rights. The obligation to notify in this case arises where, at the date of maturity, the holder of the financial instrument has an unconditional right to acquire the underlying shares or the discretion to acquire such shares.

B. The Code

The Code imposes an obligation on listed companies to include in their annual report a corporate governance report by the board of directors. The report is comprised of two parts: in the first part, the company must specify whether it complies with the Code and the extent to which it implements its principles; and in the second part it must confirm that it has complied with the provisions of the Code and in the event that it has not done so, it should provide adequate explanations to that effect.

The Code particularly emphasises the following issues:

- Part A focuses on the board of directors and addresses matters such as internal transparency regarding the appointment of new directors. It also provides an outline of the matters which should be regulated by the board, regulates the balance of the board, sets out the required skills of the members thereto, and sets out the internal supply of information to the board.
- Part B focuses on the remuneration of the directors and particularly the fixing of the remuneration packages, the level and make-up of remuneration, the remuneration policy, employment contracts and compensation of executive directors and, lastly, it specifies that the director's report must contain a statement of the remuneration policy and related criteria, as well as details of the remuneration of executive and non-executive directors.
- Part C deals with accountability and audit and addresses the importance of financial reporting and submission of balanced detailed assessments of the company's position and prospects, maintaining a sound system of internal control and the establishment of a transparent arrangement for the application of financial reporting, corporate governance and internal control principles.
- Lastly, Part D emphasises the relationship of the board with the shareholders and particularly on the constructive use of the AGM, and equitable treatment of shareholders.

C. Market Abuse

The Market Manipulation Law imposes further disclosure obligations for the purpose of eliminating insider dealing and market manipulation. Pursuant to section 11 of the said Law, companies dealing in financial instruments which are traded on a regulated market, must publish as soon as possible inside information which directly concerns them and significantly affects the prices of the instruments. The information must be published by announcement to the CSE, which proceeds with publishing the same immediately on the CSE website, by announcement to CySEC and by announcement on the website of the issuer.

D. Companies Law

In addition to the above, a company, whether private or public, must ensure that all the disclosure and notification requirements under the Companies Law are likewise complied with.

4.3 What is the role of audit and auditors in such disclosures?

The role of the auditors under the Transparency Law is to review the financial statements outlined in question 4.2 above, and to issue an audit report.

In addition to the above, the Companies' Law provides that at every AGM the company must appoint an auditor from the end of the AGM until the end of the next AGM. In accordance with Cyprus law, every company which is required under the Companies Law to prepare consolidated financial statements, every public limited liability company and every private limited liability company not being a small-sized company within the definition of the Companies Law, must have its financial statements audited. The auditors must be properly licensed to conduct the audit and whilst undertaking the statutory audit:

(a) the auditors must be independent from the audited entity;

(b) the auditors must not be involved in its decision making body; and

(c) there must not be a direct or indirect economic or professional, employment or other relationship.

4.4 What corporate governance information should be published on websites?

Where the company has admitted its securities on a regulated market, the Transparency Laws require that all the information outlined in question 4.2 above which the company is obliged to disclose, together with any additional information as may be specified in circulars issued by CySEC, must be published on the company's website. This information must further be communicated to CySEC and CySEC may additionally publish the information on its website.

In accordance with the Companies' Law, if a company has a website, it is further obliged to publish thereon its name, registration number, the nature of the company (whether it is public or private) and its registered office.

5 Corporate Social Responsibility

5.1 What, if any, is the law, regulation and practice concerning corporate social responsibility?

Although awareness of corporate social responsibility ("CSR") is growing, this is yet to be transposed into Cyprus law. CSR is evident in various internal policies that have been developed over time and through the introduction of social events aiming to raise awareness and to encourage collective contribution, particularly in the health, education and environment sectors. This tendency is increasing rapidly, which can be seen in the significant active steps which are being taken by the government of Cyprus. The Planning Bureau of the Cyprus government has recently issued the National Action Plan on CSR for 2013-2015, with the contribution of independent consultants for the purpose of evaluating and promoting CSR and aiming to introduce a suitable framework for the systematic development and promotion of CSR practices in both the private and public sector. The Human Resource Development Authority currently offers subsidised seminars to companies that wish to embark on CSR, including in-house training for the set-up of internal action plans; a CSR Cyprus Network website has additionally been set up and there is a system in place seeking to promote CSR through the granting of prizes and awards organised by the Cyprus Employment and Industrialists Federation – the OEB Excellence Awards.

5.2 What, if any, is the role of employees in corporate governance?

Employees do not play a formal or active role in corporate governance, particularly since they are not regulated under the Companies' Law or the Code, and there is no law or regulation in place encouraging any such participation. Nevertheless, employees contribute informally, by way of compliance with, the internal policies, rules and practices of each company.

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