

Memorandum of Understanding on Specific Economic Policy Conditionality

The economic adjustment programme is addressing short- and medium-term financial, fiscal and structural challenges facing Cyprus. The key programme objectives are:

- to restore the soundness of the Cypriot banking sector and rebuild depositors' and market confidence by thoroughly restructuring and downsizing credit institutions and strengthening supervision;
- to continue the on-going process of fiscal consolidation in order to correct the excessive general government deficit by 2016, in particular through measures to reduce current primary expenditure, and maintain fiscal consolidation in the medium-term, in particular through measures to increase the efficiency of public spending within a medium-term budgetary framework, enhance revenue collection and improve the functioning of the public sector; and
- to implement structural reforms to support competitiveness and sustainable and balanced growth, allowing for the unwinding of macroeconomic imbalances, in particular by reforming the wage indexation system and removing obstacles to the smooth functioning of services markets.

1. Financial sector reforms

A. Regulation and supervision

Maintaining liquidity in the banking sector

1.1. After the complete removal of all restrictive measures on 6 April 2015, the CBC, in consultation with the ECB, will continue to closely monitor the liquidity situation of the banking sector. The CBC will stand ready to take appropriate measures to maintain sufficient liquidity in the system in line with Eurosystem rules. Although liquidity has improved, additional government guarantees for the issuance of bank bonds remain available to be used as collateral against liquidity, but only if necessary to safeguard financial stability, in line with State aid rules.

1.2. The CBC will continue to receive the updated condensed capital and funding plans of core banks **on a quarterly basis**, and within two months of the end of each quarter, and will transmit them to the ECB, the EC, the ESM and the IMF. The funding and capital plans should realistically reflect the anticipated deleveraging in the banking sector, the resolution of non-performing assets, and the reduction of borrowing from the central bank, with the objective to avoid asset fire sales and a credit crunch.

Regulation and supervision of banks and cooperative credit institutions

1.3. The credit register is already operational for credit assessment purposes. The authorities will implement its use for supervisory and macro-prudential purposes, with a preliminary report **by end-September**. The authorities will further expand the data elements held in the register and continue to improve data quality.

1.4. BoC and the coops will continue to submit a **quarterly report** describing the progress with the implementation of the restructuring plans. The reports will contain the agreed set of key performance indicators, including selected operational and, where relevant, financial indicators.

1.5. The authorities will study the financial situation of borrowers. The study will, among other things, assess the extent of strategic default, with the objective of improving the effectiveness of debt resolution policies. The findings of the survey will be published in a report **by end-July**.

1.6. The CBC will ensure it has sufficient staff to carry out its functions in full independence as stipulated by the Treaties. The CBC, taking into account the tasks undertaken in relation to these policy measures new tasks following the creation of the SSM, and enforcement of the existing regulatory framework, has already assessed the staffing needs in the micro-prudential supervisory area and the recruitment process will be completed **by end-June**. The needs in other business areas of the CBC will be reviewed **by end-July** and for the Resolution Unit **by end-June**.

1.7. Taking into account the formal letter of notice sent by the EC on 27 March 2015, the authorities will finalise without any further delay the transposition into national law of the Bank Recovery and Resolution Directive. The authorities will also ensure the timely transposition of the Deposit Guarantee Scheme Directive. To this end, the CBC will make available the necessary resources as a matter of urgency.

Regulation and supervision of insurance companies and pension funds

1.8. In order to streamline non-banking supervision, the authorities will prepare an action plan for the integration of the insurance sector supervision and the pension funds supervision. The options for improving the quality of the non-banking supervision and ensuring appropriate implementation of Solvency II and also for increasing the independence and improving the governance and administrative capacity of the non-banking supervision, taking into account international best practices, will be reviewed in a report to be prepared by the authorities, **by end-September**. The report will set priorities for next steps, including an inventory of pension funds, their volume and composition of assets, type of pension scheme plan and composition of membership. A legislative proposal will be prepared taking into consideration the recommendations of the report and will be submitted to the House of Representatives **by end-December**.

Addressing corporate and household indebtedness

1.9. The Cypriot authorities will continue monitoring the indebtedness of the corporate and household sectors and prepare quarterly reports, including information on the distribution of assets and liabilities across households, and an assessment of debt-servicing capacity and refinancing activities. The annual Financial Stability Report, to be published **by end-September**, will include an extended analysis of corporate and household indebtedness. In addition, quarterly monitoring reports will continue to be submitted and their scope and content will be further enhanced.

1.10. Measures will be taken to strengthen the management of non-performing loans and to deal with troubled borrowers, taking into account the developments and timelines in the SSM. A framework for targeted private-sector debt restructuring is being established.

- Banks will continue to report **quarterly** on restructuring progress and management of NPLs, using the agreed specific performance indicators and targets (e.g. number of loans restructured, cash collections, etc.). Furthermore, banks will continue to report monthly on early arrears (e.g. number and amount of past due loans within 1-90 days, type of actions taken, and number and amount of cured or uncured loans).
- The CBC will make available on its website a comprehensive and user-friendly guide on the practical application of the amended Arrears Management Directive, published on 3 April, and of the Code of Conduct. Effective compliance with the Arrears Management Directive and the Code of Conduct will be ensured.
- To ensure that banks offer a long-term sustainable restructuring solutions, the CBC will agree with banks on institution- and portfolio-specific targets to be set for the various phases of the restructuring process on a quarterly rolling basis. Each quarter, and for the first time **by end-July**, the CBC will publish these targets, on an aggregated basis and for the ongoing and following quarters together with the past performance of the banks and an explanation for any possible discrepancy between targets and actual performance, as well as for the revision of the targets.
- Following the requirements introduced by the CBC in January, the banks and coops will continue to submit regularly to the CBC in the quarter following the reporting period the reports prepared by their external auditors on the effectiveness of their debt restructuring arrangements and strategies for the periods ending in June 2015, December 2015, and June 2016. Relying on the finding of the reports, the CBC will

assess the appropriateness of restructuring solutions and submit to the SSM the findings and recommendations on the banks' internal policies and processes regularly, and for the first time **by end-June** based on the reports for the period ending in December 2014.

- Legal amendments to the Law on the Financial Ombudsman were adopted in July 2014. **By end-June**, further legal amendments will be adopted in order to clarify that the responsibility for assessing compliance with the Arrears Management Directive is not transferred to the mediators but remains with the CBC.
- The Cypriot authorities, in view of financial stability considerations and on-going bank restructuring, commit not to introduce any new regulations which would interfere with the setting of bank lending rates. In particular no ceilings on bank lending rates would be introduced. Furthermore, the Cypriot authorities will reassess **by end-June** the recently adopted law entitled "The liberalisation of the interest rate and other related matters (amending) Law of 2015", for its compatibility with national law and international best practice and notably its retro-active application.
- In order to stimulate a market for distressed assets and to facilitate the issuance of securities by securitisation vehicles, the authorities will allow and facilitate lenders to transfer existing individual loans together with all collateral and securities to third parties at minimal transaction costs without having to obtain the consent of the borrower, while providing sufficient safeguards to the borrowers under the Code of Conduct. Banks and non-bank entities should be able to acquire loan portfolios. Any information obligation of the creditor should not be an impediment for the transfer and/or securitization of loans. To this end, the Cypriot authorities have carried out an assessment of existing impediments and of required legislative amendments. This assessment included a review of the regulatory framework for non-bank third parties and a Task Force on the removal of the impediments has been set up.
 - the authorities will, after taking into account comments by programme partners, present a draft law to programme partners, that enables the sale of loans in line with the principles and objectives mentioned above and which is in line with international best practices and EU law, **prior to the granting of the seventh disbursement of financial assistance. By end-June**, the legislation will be approved by the Council of Ministers.
 - The identified impediments to the securitisation of assets will be removed and a legal proposal enabling securitisation of assets, in line with international best practices and EU law, will be submitted to the House of Representatives **by end-July**.
- As a matter of priority, the amendment to the Banking Law limiting the sale of loans to third parties will be repealed.

Legal framework for private debt restructuring

1.11. All legal, administrative or other hurdles currently constraining the seizure and sale of loan collateral shall be removed so that the assets pledged as collateral can be recovered within a reasonable period deemed to be a maximum time-span of 1.5 years from the initiation of the relevant proceedings. In the case of primary residences, this time-span could be extended to 2.5 years. The authorities commit not to introduce any further impediments to the seizure of assets pledged as collateral.

1.12. **Prior to the granting of the seventh disbursement of financial assistance**, the authorities will, after taking into account comments by programme partners, present draft legislation to programme partners, that

- ensures that property buyers who have paid the purchase price in full, will have their title deeds transferred within 6 months after their issuance;
- puts obligations on all parties involved to ensure that the procedures releasing encumbrances and transferring the title can operate without delay and as automatically as possible; and
- provides safeguards against abuse, inter-alia by introducing a mandatory escrow account to route all payments related to a property transaction, as well as adequate compensation for the parties involved, if available.

By end-June, the legislative measures will be adopted by the Council of Ministers.

Furthermore, the CBC will, in close cooperation with Ministry of the Interior, provide to programme partners a financial sector impact assessment regarding title transfers and lifting of encumbrances **by end-June**.

The authorities will propose legal or contractual standards for property sales contracts and connected loan and mortgage arrangements **by end-October**, as well as further legislative and administrative measures necessary to incentivize the swift transfer of title deeds **by end-October**.

1.13. The authorities will monitor on a continuous basis the implementation and performance of the recently adopted insolvency framework and ensure that it supports its objectives and principles, notably speeding up the reduction in the stock of non-performing loans, and reflects international best practice. In particular, monitoring and, where relevant, amendments will focus on:

- identifying impediments to the effectiveness of the procedures, including measures which could weaken incentives for non-viable debtors to promptly pursue debt restructuring, in particular with regard to companies.
- ensuring that the relief in legacy guarantees does not jeopardise the economic function of guarantees going forward, in particular for companies, and that the payment capacity of the guarantor is taken into account.

In consultation with program partners, the authorities will submit to the Council of Ministers **by end-September** any necessary adjustments to the insolvency and foreclosure frameworks, including legislative changes. Moreover, the authorities will conduct a comprehensive review of the private sector debt restructuring legal framework **by early 2016**, with an action plan of modifications to the framework to correct any deficiencies.

1.14. Most of the legal and institutional arrangements are in place in order to start the implementation of the new insolvency regime. Any necessary additional administrative acts and regulations will be adopted **by end-August**. Amendments to the regulations regarding the liquidation of companies will be put in place **by end-October**. The authorities will step up efforts in order to minimize the transition period and to ensure the full functioning of the Insolvency Service, including IT infrastructure, and the availability of trained and licenced insolvency practitioners at the earliest possible. To this end, an action plan will be submitted to program partners by **end-June**.

1.15. Following the adoption of the regulation on the rules for sale by auctions, as required by the foreclosure law, any other measures, procedures or actions that may be required for the effective implementation of the law will be immediately implemented.

1.16. As further measures with regard to the legal framework for the restructuring of debt, the authorities will in particular achieve the following:

- the authorities will formulate recommendations on the Civil Procedure Code and Court Rules: (i) in order to ensure the smooth and effective functioning of the revised foreclosure law including the swift processing of appeals. The implementation of relevant legislative amendments should become effective **by end-July**; and (ii) in order to ensure the effective functioning of the new insolvency frameworks. The implementation of relevant legislative amendments will become effective **by end-September**. The recommendations and action taken by the authorities should also aim at improving the pace of court handling and the reduction of backlogs in courts.
- following the report on the legal framework for obtaining updated information on the financial situation of delinquent borrowers, the authorities will also issue recommendations **by end-July** regarding the financial statements of debtors in the context of enforcement measures. The adoption of the relevant amendments to the Civil Procedure Code and Court Rules will become effective **by end-October**.
- following the study of impediments on attachments to financial assets and earnings of delinquent borrowers, the authorities will also issue its recommendations **by end-July** regarding the improvement of individual enforcement procedures. The adoption of the relevant amendments to the Civil Procedure Code and Court Rules will become effective **by end-October**.

B. Recapitalisation and restructuring of financial institutions

Restoring adequate capital buffers

1.17. The authorities adopted the transposition of CRD IV on 29 January 2015 and will fix the minimum Common Equity Tier 1 ratio at 8% under Pillar 1 **by end-June**.

Management of legacy Laiki

1.18. The Resolution Authority will prepare, **by end-June**, a time-bound plan for completing the resolution of Laiki and will implement it without delay.

Restructuring of Bank of Cyprus

1.19. BoC has progressed with the implementation of its restructuring plan and has divested operations and stakes abroad ahead of schedule. Moreover, the CBC agreed with BoC on the operational and financial indicators on progress with implementing the restructuring plan that will be communicated **quarterly** to the public, together with the financial accounts.

Restructuring and recapitalisation of cooperative credit institutions

1.20. The Cooperative Group will ensure timely and complete implementation of the already agreed restructuring plan and take further measures to improve its operational capacity, notably in the following areas: i) arrears management, ii) Management Information System (MIS), iii) governance and iv) strengthening management capacity. As regards management of arrears, the Group will continue to ensure all relevant units have an appropriate level of skilled and professional staff, including, at a first stage, by redeployment of existing resources and, at a second stage, leveraging on external expert service-providers. The CCB will continue to assume primary responsibility for all loans in arrears. Direct reporting lines to the relevant units of the CCB will be established for all staff of the Group engaged in arrears management. Use of the appropriate legal tools and of collection methods related to collateral will be demonstrated. The increased capacity of the Group to manage NPLs by the NPL Management Division will be fully used and will translate in the improvement of objective and verifiable indicators. Based on the review of the sector's policies and operational capacity on debt resolution, which relied also on technical assistance from the IMF, the CCB will design **by end-June** a time-bound plan for addressing the identified deficiencies in a timely manner.

1.21. In order to equip senior management with adequate decision-making tools, the MIS will be improved. The overall IT infrastructure will be updated and fully integrated into the organisational structure of the Group, with the view of providing all the necessary data on a timely and accurate basis. The quality and validity of the existing data will be verified and monitored.

1.22. To streamline execution of tasks, governance will be strengthened, avoiding parallel decision-making structures, also relying on technical assistance from the IMF through appropriate changes **by end-June**. By the same time, the CCB will make progress towards the centralisation of the control functions to the extent possible. The CCB will ensure strict compliance of the individual CCIs with all its policies. To strengthen the governance of the CCB over the CCIs, the amendment of the affiliation directive will be finalised **by end-June**.

1.23. To ensure the implementation of the restructuring plan, the Group will continue to improve its management capacity and meet the employment targets according to the schedule communicated to the EC on 26 March 2015.

1.24. The CCB will ensure the timely implementation of the time-bound action plan for addressing the deficiencies identified with respect to Financial Control and Reporting starting **by end-July**.

1.25. Compliance with the relationship framework between the State and the CCB will be reviewed **on a quarterly basis** by the monitoring trustee, who will also report any breaches of the framework to the EC. The authorities will inform the ECB, the ESM, and the IMF of the conclusions of that report and the follow-up. To this end, the relationship framework will be amended by **end-May**. The effectiveness of the Management Unit of the Ministry of Finance will be reinforced with financial experts **by end-June**.

1.26. To preserve confidence in the sector, the CBC agreed with the CCB and the Ministry of Finance Management unit on the operational and financial indicators on progress with implementing the restructuring plan that will be communicated **quarterly** to the public.

C. Increasing financial transparency

1.27. Based on the findings of the April 2013 audit undertaken by MONEYVAL and an independent auditor, the Cypriot authorities have progressed in enhancing the anti-money laundering (AML) framework in line with best practices and are committed to ensuring its implementation, under the timetable set out in the agreed AML Action Plan (see Annex 2) and in particular by taking the following measures:

- Strengthen preventive measures of obliged entities with regard to customer due diligence, use of introduced business and reporting of suspicious transactions (Action Plan – sections 1, 2 and 3).
- Ensure transparency and timely access to information on beneficial ownership of trusts (Action Plan – section 4). The programme partners take note of the establishment by the Cypriot authorities' of trust registers with the supervisory authorities (Action Plan – section 4.3.1)
- The supervisory competent authorities are reviewing their off-site and on-site supervisory procedures and further implement a risk-based approach to AML supervision for financial and non-financial (lawyers, accountants and TCSPs) institutions (Action Plan – sections 5 and 6). The competent supervisory authorities are committed to take appropriate remedial and/or enforcement actions whenever breaches of compliance are revealed.
- On a quarterly basis, in the context of the programme review starting **Q4-2013**, the supervisory competent authorities will, on a confidential basis, share anonymised information with the programme partners, by granting access to supervisory assessments and information about enforcement actions applied for non-compliance and/or violations of laws and regulations.

To address concerns that Cypriot corporations and trusts might be misused, the Cypriot authorities have revised the legal framework so that adequate, accurate and timely information on the beneficial ownership of Cypriot legal persons and arrangements can be provided to foreign counterparts related to money laundering and tax matters.

To ensure that adequate, accurate and current basic information on all types of legal persons registered in Cyprus could be obtained by the Registrar of Companies and be accessible by the public in a timely manner, the Cypriot authorities have committed to reform the Department of Registrar of Companies as foreseen in section 3.9.

The Cypriot authorities commit to maintain efforts to ensure that the widest possible exchange of information with other FIUs is achieved, either spontaneously or in response to requests. The Cypriot FIU has taken the initiative to provide the programme partners with a breakdown of requests made and received and spontaneous disseminations on a quarterly basis (within 14 days of the end of the quarter), starting with Q4 2013, and publish this information on the FIU website on an annual basis.

To protect the integrity of the financial sector, the CBC took swift action to put the local branch of FBME Bank Ltd. under resolution following the measures taken by its correspondent banks after its designation by the US authorities as a financial institution of primary money laundering concern, has undertaken an AML investigation, and will take appropriate supervisory action based on the results.

2. Fiscal policy

Key objectives

Putting public finances on a sustainable path is of overriding importance in order to stabilise the economy and to restore the confidence of companies, citizens and foreign investors in the longer-term economic prospects of Cyprus.

In this context, the objectives are: (1) to continue the on-going process of fiscal consolidation in order to achieve a 3% of GDP primary surplus in 2017, 3% to 4% of GDP in 2018 and maintain at least such a level thereafter; (2) to achieve the annual budgetary targets as set out in this Memorandum of Understanding (MoU) through high-quality permanent measures, in particular reducing the growth in expenditure on the public sector wage bill, social benefits and discretionary spending, while minimising the impact of consolidation on vulnerable groups; (3) to correct the excessive general government deficit by 2016; and (4) to maintain fiscal consolidation over the medium term, converging towards Cyprus' medium-term budgetary objective of a balanced budget in structural terms, by containing expenditure growth, improving the structure of taxation and undertaking fiscal-structural measures (see Section 3), including the implementation of a Medium-Term Budgetary Framework designed in accordance with EU specifications.

The Cypriot authorities adopted a number of fiscal measures for 2012-2014 and have progressed in relation to fiscal-structural reforms. The authorities commit to the full implementation of these measures (see Annex 1) and to regularly monitor the budgetary effect of the measures taken. Any deviation from the projected budgetary effect of the measures will be evaluated and addressed accordingly in the quarterly programme reviews, taking into account macroeconomic developments. In the event of underperformance of revenues or higher spending needs, the government should stand ready to take additional measures to preserve the programme objectives, including by reducing discretionary spending, taking into account adverse macroeconomic effects. Over the programme period, cash revenues above programme projections, including any windfall gains,¹ will be saved or used to reduce debt. To the extent that over-performance is deemed permanent, this can reduce the need for additional measures in the outer years. Measures, such as tax amnesties, that could have an adverse impact on tax compliance and foster tax fraud and evasion, thereby counteracting efforts in line with paragraph 3.6 of this Memorandum, will not be undertaken over the course of the programme period.

Sound fiscal policy and expenditure prioritisation should contribute to preserving the good implementation of Structural and other EU funds, in respect with the programme's budgetary targets. In the light of Cyprus' economic challenges, EU funds will be targeted to those areas that deliver the most important economic and social impact, in accordance with the priorities to be set in the relevant EU regulatory framework. In order to ensure the effective implementation of EU funds, the Government will ensure that the necessary national funds remain available to cover national contributions, including non-eligible expenditure, under the European Structural and Investment Funds (ERDF, ESF, Cohesion Fund, EAFRD and

¹ Windfall gains associated with hydrocarbons shall mean only the blocks' licencing fees or related signature bonuses for exploration thereof. It is noted that any streams of revenues associated with hydrocarbon exploitation are dealt with under section 5.5, second bullet-point, indent 3

EFF/EMFF) in the framework of the 2007-2013 and 2014-2020 programming periods, while taking into account available EIB funding. The authorities will ensure that the institutional capacity to implement current and future programmes is improved and the appropriate human resources of Managing Authorities and implementing bodies are available.

In accordance with Regulation 472/2013, Cyprus shall provide all the information that the programme partners consider to be necessary for the monitoring of the implementation of the economic adjustment programme. The Cypriot authorities will consult ex-ante with the European Commission, the ECB and the IMF and informing the ESM on the adoption of policies that are not included in this Memorandum but that could have a material impact on the achievement of programme objectives.

Fiscal policy in 2015

Based on the programme's updated budgetary projection, the Cypriot authorities will achieve general government primary surplus of at least EUR 264 million (1.5% of GDP) in 2015, corresponding to a headline deficit of [1.5%] of GDP (respecting the 16 May 2013 Council Recommendation on correction of the excessive deficit in Cyprus).

Fiscal policy in 2016-18

In 2016 the Cypriot authorities will achieve a general government primary balance surplus of at least EUR 439 million (2.5% of GDP), corresponding to a headline deficit of [xx]% of GDP (respecting the 16 May 2013 Council Recommendation on correction of the excessive deficit in Cyprus).

The Cypriot authorities will achieve a general government primary balance of 3% of GDP in 2017 and 3% to 4% of GDP in 2018.

These targets and the underlying updated budgetary projection will be embedded in the 2016-2018 Fiscal Strategy Statement, which will be adopted by the Council of Ministers **by Q2-2015**. After review by and consultation with the programme partners, the 2016 Budget Law will be adopted by **December 2015**. Ceilings for the period 2016-2018 will be established and will accompany the 2016 Budget Law document. Any deviation from the budgetary objectives contained in the 2015-2017 framework will be properly documented and reasons for such deviations will be provided to the programme partners.

If required, the Cypriot authorities will present the programme partners with a provisional list of measures to attain the primary surplus targets in 2017 and 2018.

3. Fiscal-structural measures

Key objectives

Cyprus enjoyed above euro-area average growth rates for more than a decade and in parallel expanded its public sector employment, support and services considerably. Looking ahead, if the public sector is to provide appropriate support for the sustainable and balanced growth of the Cypriot economy, fiscal-structural reform steps are needed to ensure the long-term sustainability of public finances, to provide the fiscal space necessary to support the diversification of the economy, and to alleviate the adverse impact on jobs and growth arising from Cyprus' exposure to external shocks. In this context, the objectives are: (1) to improve the efficiency of public spending and the budgetary process by means of an effective Medium-Term Budgetary Framework (MTBF) that is fully compliant with the Directive on requirements for budgetary frameworks and the Treaty on Stability, Coordination and Governance (TSCG); (2) take further steps to improve the efficiency and coverage of the healthcare system, while controlling the growth of health expenditure; (3) enhance tax revenues by improving tax compliance and collection; (4) undertake reforms of the public administration to improve its functioning and cost-effectiveness, notably by reviewing the size, employment conditions and functional organisation of public services; (5) undertake reforms of the overall benefit structure with the aim of producing an efficient use of resources and ensuring an appropriate balance between welfare assistance and incentives to take up work; and (6) elaborate a programme for improving the efficiency of state-owned and semi-public enterprises and initiate a privatisation programme.

Pension reform

3.1. While acknowledging that the Cypriot authorities have recently introduced substantial reforms (as noted in Annex 1), which, according to the results of the actuarial study which were peer reviewed in the Ageing Working Group of the Economic Policy Committee in September 2013, have adequately addressed the issue of the high projected increase in pension spending and secured the long-term financial viability of the pension system through 2060, it remains important to monitor the long term financial sustainability of the system and consider further reform steps, if needed.

Health care reform

3.2. To strengthen the sustainability of the funding structure and the efficiency of public healthcare provision, the following measures will be adopted:

- a) **By Q2-2015**, and taking into account the related WHO studies, the hospital autonomization bill will be adopted by the Council of Ministers and submitted to the House of Representatives;
- b) A detailed road map for the implementation of hospital autonomization will be submitted to programme partners **by Q2-2015**;
- c) **By Q3-2015**, the detailed restructuring plan of the public primary healthcare centres will be prepared for consultation with programme partners, based on the recommendations put forward in the respective report;

- d) The authorities will continue delivering quarterly reports assessing the collection of private co-payments and compulsory health-care contribution for public servants and public servant pensioners.
- e) The Implementation Advisory Team will, in close cooperation with the Support Group for Cyprus, assist the Ministry of Health with the implementation of healthcare reforms and hospital autonomization. Further, the Cypriot authorities will consult in a timely manner with programme partners and provide all necessary information.

Taking into account the economic conditions, the implementation of the necessary complementary reforms, the results of the updated actuarial study, a National Health System (NHS) will be implemented to be fully in place in **2017**. The NHS will be developed and implemented based on the fundamental principles of free choice of provider, social equality and solidarity, financial sustainability and universal coverage of a minimum benefit basket. NHS will be initially based on a single payer system. A multiple insurance system can be implemented if and when the necessary preconditions for achieving fiscal sustainability as well as efficiency and affordability gains (i.e. consumer information and transparency, contestable markets, freedom to contract, competition regulation and risk-adjustment) can be ensured. The authorities will take a decision on the final design of NHS and adopt the relevant legislations according to a timetable that will ensure implementation of the NHS in 2017. In order to ensure that the final design of the NHS is fiscally sustainable, the Council of Ministers will adopt, after consultation with programme partners, a binding set of contingency measures under NHS (e.g. revision of the basket of publicly reimbursable medical services and products, cuts in tariffs for medical products and providers of medical services, limits to the volume of reimbursable products and services, capacity planning), which will ensure that the agreed budget limits of public health expenditure are not exceeded, whilst equitable access to healthcare is guaranteed.

Public financial management

3.3. The Cypriot authorities will:

- Improve further the risk-assessment analysis and management, associated with government guarantees. To this end, submit to programme partners **by Q2-2015** an updated version of the risk assessment report;
- Drawing on the recommendations from technical assistance provided by the ESM and the IMF, submit to programme partners **by Q2-2015** an action plan for strengthening sound practice standards for the Public Debt Management Office;
- issue guidelines for public investment management, including project appraisals in line with the FRBSL provisions **by May-2015**. The authorities commit not to enter into any new tendering process and not to sign any public private partnership (PPP) contract before the issuance of the guidelines for public investment management; and
- regularly update the PPPs inventory, including contingent liabilities and include it both in the annual budget law and in the annual financial report.

State-owned enterprises

3.4. As regards extra-budgetary funds and entities, in particular the State-Owned Enterprises (SOEs) and other state-owned assets:

- the law regulating the creation and the functioning of SOEs at the central and local levels will be adopted by the House of Representatives **by June 2015**. The law will enhance the monitoring powers of the central administration, while including reporting on SOEs in the context of the annual budgetary procedure. No additional SOEs will be created until the law has been adopted;
- each SOE under internal review will submit a strategic plan with detailed milestones and timelines to the competent minister for approval, in consultation with programme partners, and in line with the FRBSL and SOEs Law provisions, **at the latest 3 months after the completion of each internal review**.

Privatisation

3.5. The Cypriot authorities will implement the privatisation plan submitted to the programme partners to help improve economic efficiency by encouraging more vigorous competition and greater capital inflows and enhance debt sustainability. The plan includes the privatisation of, inter alia, CyTA (telecoms), EAC (electricity), CPA (commercial activities of ports), as well as land assets. CyTA and CPA will be privatised **within the programme period and EAC by mid-2018**.

An appropriate regulatory framework is a prerequisite for the privatisation of natural monopolies. The provision of basic public goods and services by privatised industries will be fully safeguarded, in line with the national policy goals and in compliance with the EU Treaty and the relevant secondary legislation. Privatisation will be conducted in conformity with State aid rules, as required by the Commission's Guidance Paper.²

In order to pursue the privatisation process in the most diligent way, the Cypriot authorities will:

- ensure that the Privatisation Unit is fully operational as soon as possible, in line with the objectives and provisions of the Privatisation Law;
- for the privatisation of Cyprus's Telecommunications Authority (CyTA):
 - convert CyTA into a Limited Liability Company through the adoption of the necessary legislation for CyTA's corporatisation by the Council of Ministers **by June 2015** and by the House of Representatives **by September 2015**;
 - in parallel, prepare, through the Inter-Ministerial Committee, and on the basis of the recommendations of the advisers, the privatisation structure and the transaction strategy, including the envisaged ownership structure.

² http://ec.europa.eu/competition/state_aid/studies_reports/swd_guidance_paper_en.pdf

- for the privatisation of Limassol Port's commercial activities:
 - prepare for consultation with programme partners a detailed privatisation plan, a valuation of the transaction and the specificities of the Port's method of privatisation **by June 2015**, after consultation with, and notification to, the relevant European Commission services;
 - launch the call for the Expression of Interest for the concession agreement **by June 2015**;
 - adopt the law enabling the conversion of the Cyprus Port Authority (CPA) into a regulatory body **by May 2015** and establish CPA's appropriate regulatory framework **by October 2015**, after consultation with, and notification to, the relevant European Commission services.

- for the privatisation of the Electricity Authority Company (EAC):
 - finalise **by May 2015** the bidding process for the study on the unbundling and ownership structure of EAC. The study will comprise an international benchmarking, including cost structures of comparable electricity companies operating in a similar environment;
 - appoint the independent adviser conducting the study **by July 2015**;
 - submit the study for consultation with programme partners **by November 2015**, including an interim report **by September 2015**;
 - taking into account the study, and in consultation with programme partners, the Council of Ministers will decide, **by December 2015**, on a form of effective and efficient unbundling, in line with the principles of the Third Energy Package, which ensures the customer's free choice of supplier and guarantees non-discriminatory access to energy networks to the benefit of suppliers and customers. This unbundling will be implemented **by Q1-2016**. The Council of Ministers' decision will take into account the overall impact on the economy and the economic efficiency gains of the unbundling of EAC's operations into different legal entities.

- for the sale of land assets:
 - appoint an independent adviser with relevant expertise that will develop a plan with detailed intermediate steps and timings for disposing of the identified land assets **by June 2015**;

The privatisation plan identified by the Government after consultation with the programme partners will raise at least EUR 1 billion **by the end of the programme period** and an additional EUR 400 million **by 2018 at the latest**, which will be used for public debt reduction.

Revenue administration, tax compliance, and international tax cooperation

3.6. The Cypriot authorities will continue reforming the revenue administration with the objective to reinforce the efficiency and effectiveness of revenue collection and the fight against tax fraud and evasion, with a view to increasing fiscal revenue.

A comprehensive compliance strategy will be put in place **by Q2-2015**. The strategy will be firmly based on analytical work on risk identification and analysis, as well as on an evaluation of different risk treatment strategies. To this end, the authorities will

- implement their new debt collection action plan, with a view to reducing collectible and unencumbered debt, while continuing the pilot run on garnishing of bank accounts, and prepare a quarterly progress report on the action plan's implementation starting in **Q2-2015**; and
- submit to programme partners **by Q2-2015** detailed action plans by each of the headquarter units in the Design and Monitoring Division, outlining the steps to implement the compliance strategy in the Tax Department, including training of staff.

To progress with the operationalization of the integrated and function-based tax agency, in line with the adopted integration plan, the following steps will be taken:

- **by Q2-2015**, a single registration process will be put in place; and
- the new tax procedure code, consistent with the compliance strategy and future business processes, will be adopted by the Council of Ministers **by Q3-2015**.

3.7. The Cypriot authorities will safeguard the timely and effective exchange of information on tax matters, fully ensuring the applicability of laws and standards governing international exchange of tax information. In this respect, the Cypriot authorities will enhance the practice of timely delivery of relevant and accessible tax information to other EU Member States. The authorities will:

- fully transpose and implement Council Directive 2011/16/EU on administrative cooperation in the field of taxation and abide by Art 7 of the Directive and Art 10, 19 and 21 of Council Regulation 904/2010 on administrative cooperation and combating fraud in the field of value-added tax, which prescribe specific timeframes within which Member States shall provide information to each other;
- continue improving the systematic follow-up and use of information received from other countries about savings income payments received by Cyprus resident individuals and savings income payments received by entities and legal arrangements such as trusts under Cyprus law, notably entities and legal arrangements the beneficial owners of which are resident in other EU Member States; and
- ensure that the tax authorities have continuous access to databases of other public entities in order to facilitate and expedite the provision of the requested information **by Q4-2015**; and
- building on the corrective action already taken, continue with the swift implementation of the commitments taken with a view to reversing the negative opinion by the OECD Global Forum in the Peer Review Group 2015 annual meeting.

In addition, the authorities will monitor closely further progress in responding timely to tax information requests by EU and third countries. The authorities will submit to the programme partners quarterly performance updates (within 14 days of the end of the quarter).

In the context of an effective implementation of Council Directive 2003/48/EC on taxation of savings income in the form of interest payments (the EUSD), the Cypriot authorities will continue to provide to the EC all necessary and available information/statistics extracted from the data exchanged under the FISC153. In addition, on an annual basis and starting from the tax year ending on 31 December 2013, the Cypriot authorities will provide to the EC a breakdown of the information provided under the EUSD by sector of activity of the paying agents, including possible sanctions actually claimed of paying agents for their application of the EUSD. **By Q4-2015**, the Cypriot authorities will provide to the European Commission a report on the results of audits of at least 4 out of the total of 16 paying agents established in Cyprus. The Cypriot authorities (CBC) will provide on an annual basis detailed sectoral deposit statistics with a breakdown of non-resident deposits by country.

Immovable property tax reform

3.8. The Cypriot authorities will reform the immovable property tax with the objective to improve the fairness of the tax burden and to increase the efficiency of the tax administration. To this end, the authorities will:

- implement the recurrent immovable property tax for the tax year **2015** based on a General Valuation (GV) for all immovable properties, determined on the basis of tangible building- and plot related characteristics. The design of the immovable property tax should ensure a broad tax base and IPT proceeds not lower than in 2013. A draft of the proposed tax rates and thresholds will be submitted for timely consultation with programme partners. Following consultation with programme partners, the final design of the immovable property tax will be adopted by the Council of Ministers **by May 2015** and submitted to the House of Representatives by **Q2-2015** with a view to adoption in due time for being applied for the collection of the 2015 immovable property tax.
- adopt legislation specifying the frequency of the mandatory update of the values in line with international best practice **by Q2-2015**, following consultation with programme partners;
- implement **by Q2-2015** the recommendations of a study on the scope for consolidating the collection and administration of the municipal and communal recurrent property tax. **By Q2-2015**, the authorities will also review the tax regulations that may impede the leasing of immovable property;
- continue the assessment of the relevance of the parameters used in the Computer Assisted Mass Appraisal (CAMA) model for the GV, on a quarterly basis;
- present to the programme partners **by Q2-2015** an updated communication strategy aiming at informing the goals of the property tax reform, the implications for citizens and the required procedural steps.

Public administration reform

3.9. The Cypriot authorities have commissioned and will commission reviews of possible further reforms of the public administration. The reviews include a horizontal and a sectoral element.

Based on the findings of the horizontal review submitted in 2014, the Cypriot authorities will prepare a reform plan, which will be based on the following principles:

- reform the structure of public sector wages, in order to safeguard the fiscal sustainability of the public sector wage bill and the consistency with the medium-term fiscal targets. This will be ensured by reforming the wage setting mechanism and make salary increases subject to overall economic and fiscal conditions on the basis of objective indicators. The mechanism will ensure that the compensation of employees in the general government as a share of GDP will remain on a descending path over the medium-term.
- introduce a new appraisal system and a new promotion system that will establish a stronger link between merit and promotion by: (i) widening the base of eligible candidates, (ii) increasing the weight of merit in promotion decisions, including by introducing objective assessment criteria, written exams and/or assessment centres, and (iii) by involving more directly the Heads of Departments in promotion decisions;
- enhance staff mobility, by: (i) opening the promotion posts to the wider civil service, (ii) introducing a system of transfers within the public sector, (iii) a wider use of secondments and duty assignments, and (iv) ensuring that mobility is taken into account in the assessment of relevant experience in promotion decisions.

With a view to the reform being adopted in 2015, the reform plan will be prepared for consultation with programme partners **by May 2015**. The reform plan and accompanying legal proposals will be adopted by the Council of Ministers **by June 2015** and submitted to the House of Representatives.

The sectoral element will examine:

- the role, competences, organisational structure, size and staffing of relevant ministries, services and independent authorities;
- the possibility of abolishing, merging or consolidating non-profit organisations or companies and state-owned enterprises; and
- the possibilities for the re-organisation and re-structuring of local government,

and comprises two batches:

- the first batch consists of the review of the Ministries of Agriculture, Education and Health, as well as local government and the Department of Registrar of Companies. Based on the findings of the World Bank and the UK public administration report, the Council of Ministers will adopt the remaining reform plans for local governments, after consultation with programme partners, **by June 2015**. Following the adoption of the legislation indicated as high priority on the Companies Registrar, its reform will

start to be implemented **by June 2015**. The relevant legislation in relation with the reforms in Agriculture, Education, and local governments indicated as high priority will be adopted by the House of Representatives **by October 2015** and their reforms will start to be implemented **by January 2016**.

- the second batch will cover all remaining Ministries (Labour, Welfare and Social Insurance, Communications and Works, Energy, Commerce, Industry and Tourism, Interior, Defence, Justice and Public Order, Foreign Affairs), and the Ministry of Finance, including the Treasury and the Directorate General for European Programmes, Coordination and Development (ex: Planning Bureau) being covered under the PFM. It will also include all SOEs. Finally, it will cover the Constitutional and Independent Services (see Annex for detailed list). The results of the second batch will be presented **by Q4-2015**. They will include implementation timelines with detailed intermediate steps. Based on the findings of this review, the Cypriot authorities will agree on a reform plan after consultation with programme partners, which will be approved by the Council of Ministers **by Q1-2016**. The relevant legislation in relation with the reforms indicated as high priority will be adopted by the House of Representatives **by Q2-2016**. The reform will start to be implemented **by Q3-2016**, in accordance with the reform plan.

Welfare system

3.10. The Cypriot authorities introduced a Guaranteed Minimum Income (GMI) aimed at strengthening the protection of vulnerable households while ensuring an appropriate balance between welfare benefits and work incentives. The Cypriot authorities have started implementing the new GMI as of mid-July 2014. Besides the introduction of the GMI, the adopted welfare reform plan also includes measures aimed at consolidating and streamlining other social benefits, and at improving the targeting of these benefits.

To continue the implementation of the adopted welfare reform and monitor the implementation of the GMI, including its fiscal impact, the Cypriot authorities will take the following steps:

- the monitoring unit will continue providing quarterly costing updates of the GMI, at the end of each quarter, starting in **Q1-2015**;
- **by Q2-2015**, prepare for consultation with programme partners, plans to consolidate disability benefits, in line with the adopted welfare reform;
- **by Q2-2015** submit for consultation with programme partners, a proposal to consolidate the student grant, the student package and the benefits previously administered by the Cyprus Scholarship Foundation into one scheme, with a view to implementing the single scheme for the academic year 2015-2016;
- **by Q3-2015**, the monitoring unit will provide an assessment report of the GMI and an analysis of the profile and coverage of beneficiaries;
- on the basis of a single view on social benefits under various ministries, drawing on their respective registries of benefits, **by Q1-2016**, the monitoring unit will finalize an assessment report of the welfare reform, including possible refinements in administrative structures and benefits.

4. Labour market

Key objectives

While the Cypriot labour market was characterised by high employment rates and low unemployment in the years leading up to the crisis, the unwinding of unsustainable imbalances and worsening of macroeconomic conditions and prospects have resulted in rapidly rising unemployment and important labour market challenges over the medium-term. Labour market reforms can mitigate the impact of the crisis on employment, limit the occurrence of long-term and youth unemployment, facilitate occupational mobility and contribute to improving the future resilience of the Cypriot economy in the face of adverse economic shocks. In this context, the objectives are: (1) to implement a reform of the system of wage indexation commensurate with ensuring a sustainable improvement in the competitiveness of the economy and allowing wage formation to better reflect productivity developments; (2) to implement a comprehensive reform of public assistance in order to achieve an appropriate balance between public assistance and incentives to take up work, target income support to the most vulnerable, strengthen activation policies and contain the public finance impact of rising unemployment; and (3) to help attenuate adverse competitiveness and employment effects by linking any change in the minimum wage to economic conditions.

Cost of living adjustment (COLA) of wages and salaries

4.1. To ensure that wage growth better reflects developments in labour productivity and competitiveness, in both expansions and recessions, the Cypriot authorities are reforming the wage-setting framework. Wage indexation has been suspended in the private sector until end-2016. A tripartite agreement will be pursued with social partners **by Q4-2015** to ensure that the reformed wage indexation system (COLA) applicable to the public sector (lower frequency of adjustment, suspension at times of recession and partial indexation) is also adopted by the private sector when the period of COLA suspension ends.

Minimum wage

4.2. With a view to preventing possible adverse competitiveness and employment effects, the Cypriot authorities commit that, over the programme period, any change in the minimum wage covering specific professions and categories of workers should be in line with economic and labour market developments and will take place only after consultation with the programme partners.

Activating the unemployed and combating youth unemployment

4.3. The increase in unemployment underlines the need for an overall assessment of activation policies and available instruments for income support after the expiration of unemployment insurance benefits. The implementation of the reform of the social welfare system, which ensures that social assistance serves as a safety net to ensure a minimum income for those unable to support a basic standard of living, while safeguarding incentives to take up work, should be pursued as described in section 3.10.

4.4. The Cypriot authorities will continue the implementation of measures to address the identified shortcomings of the system of activation policies, including:

- i. continuous monitoring and evaluation of all activation measures, in accordance with the newly adopted comprehensive methodology. A first report on the implementation of the monitoring system will be prepared for consultation with programme partners **by Q4-2015**;
- ii. measures to enhance the administrative capacity of the public employment services. In this regard, a detailed description of all actions taken or envisaged in the short-term to improve the provision of PES services, including organizational changes will be prepared for consultation with program partners **by Q2-2015**. In addition, the tender for the recruitment of additional staff, through the 2014-20 ESF Operational Programme budget, will be launched **by end-May 2015**, and all staff will be operational **by end-October 2015**; and
- iii. measures to ensure the effective cooperation between the public employment services, the social welfare services and the benefit-paying institutions in the activation of the unemployed who are recipients of social assistance, including by establishing clear procedures for the automatic exchange of information and a transparent system linking benefit receiving with job-search efforts. A comprehensive note detailing the concrete measures undertaken in this regard, covering steps to avoid welfare dependency, and the links with social welfare services, will be prepared for consultation by program partners **by end-May 2015**.

4.5. Having experience one of the steepest increases in the youth unemployment rate in the EU, and a rapid rise of young people not in employment, education or training (NEETs), Cyprus was urged to take swift action to create employment opportunities for young people and improve their employability prospects. To this end, the Cypriot authorities have recently adopted a National Action Plan for Youth Employment, which includes, inter alia, measures envisaged for support under the Youth Employment Initiative covering also the implementation of the Youth Guarantee, in line with the conclusions of the European Council of June 2013. The design, management and implementation of these measures targeted to youth shall be well integrated within the broader system of activation policies and be coherent with the reform of the social welfare system (section 3.10) and the agreed budgetary targets. For this purpose, the authorities will prepare for consultation with programme partners a comprehensive list of all active labour market policies running in the period 2014-2015, with objectives, target group, recipients per year, budgetary allocations, and call dates **by end-May 2015**. This list will be updated to include also measures to be implemented in the period 2015-2016, **by Q3-2015**.

5. Goods and services markets

Key objectives

Addressing issues of a structural nature is critical for rebalancing the Cypriot economy, restoring its growth potential and improving competitiveness. Removing unjustified obstacles in services markets can have a significant impact on growth, in particular for the services-intensive Cypriot economy. In addition, improving the quality and reducing the cost of regulated professional services can play an important role for the business environment and for Cyprus' competitive position. Since tourism is one of Cyprus' largest sectors and an important potential driver of future growth, a reinvigoration of the competitiveness of this sector is warranted. Improving the regulation of administration related to the real estate sector will contribute to the overall functioning of the housing market and help to foster foreign demand at a time when the prospects of this sector are affected by downside risks. Finally, the exploitation of the domestic offshore natural gas potential offers the medium- to long term prospect for reducing Cyprus' energy import dependency and the security and sustainability of energy supply. This would help to address Cyprus' sustained current account deficit and high public debt. However, these positive effects will accrue only after overcoming the challenges of financing and planning the infrastructure investments, designing efficient energy markets and an adequate regulatory regime.

Services Directive and regulated professions

5.1. On the basis of the comprehensive review of requirements affecting the access and exercise of activity of the regulated professions sector, the elimination of unjustified requirements for the specific case of engineers remains subject to close monitoring and possible further actions by the Commission, so as to ensure compliance with EU law.

Competition, transparency and sectoral regulatory authorities

5.2. The Cypriot authorities will strengthen the independence and the effectiveness of the Commission for the Protection of Competition (CPC) by:

- continuously ensuring that CPC has sufficient and stable financial means, as well as qualified personnel, in order to enhance its effective and on-going operation; and
- continuously promoting a more active role of the CPC in the area of advocacy, with the objective of safeguarding and promoting competition.

The Cypriot authorities will continuously ensure that the General Auditor's Office has sufficient personnel to carry out its functions and increased tasks, and that it is financially independent, as originally stipulated by the European Commission's Monitoring Report on the Implementation of the Commitments made in the Accession Negotiations by Cyprus (Chapter 28, Financial Control/External Audit) and as restated in the 2014 EU Anti-Corruption Report.

The Cypriot authorities will continuously ensure that powers and independence of the National Regulatory Authorities (NRAs) are effective in accordance with the EU Regulatory Framework.

Housing market and immovable property regulation

5.3. Action is required to ensure property market clearing, efficient seizure of collateral, and swift transfer of property rights. A particular risk arises from legal disputes, which may be due to incomplete documentation of ownership and property rights and the slow pace of judicial procedures.

The Cypriot authorities will ensure that:

- **by Q2-2015**, the House of Representatives will adopt amendments to the Street and Building Permit Law to ensure the enforcement of the deadlines for issuance of certificates of completion by the supervisor engineers;
- the working group on title deeds issuance will review all procedures from the planning permit application to the issuance of title deeds (working closely with the Task Force on title deeds). **By end-June 2015**, the Cypriot authorities will submit for consultation with programme partners a report detailing the main obstacles for the title deeds issuance and recommendations on ways how to streamline these procedures during 2015, including a catalogue of tolerated deviations from building and planning permits. A further comprehensive streamlining of building, planning and title deed procedures will be proposed by the authorities following the completion of the in-depth analysis in progress.
- the title deed issuance backlog of immovable property units with title deed issuance pending for more than six months drops to less than 3,500 units **by Q4-2015** (backlog refers to (i) applications, (ii) units that are eligible for the "ex-officio" issuance of title deeds, required certificates and permits). The ex-officio cases will automatically be counted in the backlog from the date the certificate of final approval is being issued by the respective Local or District Authority. To that end, the Cypriot authorities will continue to provide to programme partners granular data on the stock of backlogs of permits, deeds, certificates, and mortgages associated with the underlying properties and continue publishing the quarterly progress reviews.

Tourism

5.4. Since tourism is one of Cyprus' largest economic sectors and a potential driver of future growth and employment, a reinvigoration of its competitiveness is necessary as part of the Action Plan for Growth. To that end, the Cypriot authorities will:

- present a progress report on the implementation of the tourism sector's action plan every **Q1** and **Q3** in 2015-16;
- provide an assessment of the current regulatory framework governing the tourism sector (including the CTO law), in order to identify, the impediments to competition in the tourism sector **by September 2015**. The assessment will be based also on the views of the established thematic stakeholder groups and in consultation with programme partners;
- in order to prepare a national tourism strategy, the authorities will select the consultant to conduct a study **by June 2015**. An interim report will be submitted for consultation to the programme partners **by November 2015**, with a view to conclude it **Q1-2016**;

- continue implementing an aeropolitical strategy leading to the adaptation of Cyprus's external aviation policy, taking into account the EU external aviation policy and the EU aviation agreements, while ensuring sufficient air connectivity. The corresponding action plan will be reviewed annually by the Cypriot authorities, in consultation with the programme partners.

Energy

5.5. The Cypriot authorities will:

- ensure, without delay, that the Third Energy Package is fully and correctly implemented;
- formulate a comprehensive strategy for the rearrangement of the Cypriot energy sector. This strategy will be developed and updated under the full authority of the Cypriot Government and should include at least the following three key elements, to be presented to the programme partners for consultation according to the timeline specified below:

1. a *roll-out plan* for the infrastructure required for the exploitation of natural gas. This plan should cover: the required investments, associated costs, financing sources and methods, ownership structure; major planning risks and bottlenecks taking into account also technical and commercial uncertainties; a projection of the revenue streams over time; the configuration and timing for the development of the necessary transmission infrastructure, accounting for European projects of common interest; and an appropriate sales framework for the off-shore gas supply for both exports and domestic markets aimed at maximising revenues. Next update **by Q3-2015**.

Prior to approving the Field Development Plan (FDP) of the Aphrodite gas field, the Cypriot authorities will undertake a financial and budgetary impact analysis of the FDP. The impact assessment will evaluate in detail the potential financial and budgetary impacts on the general government position as well as financing arrangements of the investment project chosen, with a particular focus on budgetary commitments that may arise;

2. a *comprehensive outline of the regulatory regime and market organisation* for the restructured energy and gas sector, with a view to introducing open, transparent, competitive energy markets, which has been provided by Q4-2014 and lays out different options for the regulatory regime and market organisation. Based on this document, the Cypriot authorities will take a decision on the preferred option, taking into account the latest developments and the envisaged timeline for EAC unbundling. The Cyprus authorities will also provide to programme partners an analysis of the cost price of different sources of renewables compared to conventional primary energy sources (**by Q3-2015**).
3. an institutional framework for the management of hydrocarbon resources, including a *resource fund*, which should receive and manage various types of public revenues from offshore gas exploitation and sales. In order to ensure transparency, accountability and effectiveness, the resource fund should benefit from a solid legal base and governance structure, drawing on internationally-recognized best practices. The resource fund, established in the FRBSL, should be based on clear rules governing inflows and outflows, coupled with clear rules

regarding dividends, fees and costs of government entities and stakes in the energy sector. These rules are provided for in the FRBSL, but will be detailed in implementing legislation of FRBSL, which will be submitted to the House of Representatives **by Q2-2015**. The resource fund law, which defines the governance structure of the resource fund, will be submitted to the House of Representatives **by Q2-2015**.

6. Technical assistance

6.1. Given the nature of the structural challenges Cyprus is facing, including a lack of specific skills in some areas and scarcity of resources, the Cypriot authorities will provide an updated request for technical assistance needs during the programme period, including the on-going technical assistance projects **by end-June 2015**. This request will identify and specify the areas of technical assistance or advisory services, which the Cypriot authorities consider essential for the implementation of the MoU and where they intend to seek such technical assistance services, in coordination with the programme partners. All technical assistance provided by the European Commission, other than technical assistance provided directly under the Structural and other EU funds, will be coordinated by the Support Group for Cyprus.

7. Growth Strategy

7.1. By **June 2015** the authorities will provide a monitoring report reflecting the progress in implementing the existing Action Plan for Growth. The monitoring report will also include an update on any studies which are in-preparation or on-going and are related to this Action Plan. The Cypriot authorities may request technical assistance to implement the Action Plan for Growth.

Annex 1

Budgetary measures adopted by Cyprus in or after December 2012

Fiscal measures with effect in 2012

Expenditure measures

I.1 Implement a scaled reduction in emoluments of public and broader public sector pensioners and employees as follows: EUR 0-1000: 0%; EUR 1001-1500: 6.5%; EUR 1501-2000: 8.5%; EUR 2001-3000: 9.5%; EUR 3001-4000: 11.5%; above EUR 4001: 12.5%.

I.2 Extend the suspension of the practice of COLA for the public and broader public sector until the end of the programme (Q1-2016) (see 4.1).

I.3 Extend the freeze of increments and general wage increases in the public and broader public sector and temporary contribution in the public, broader public and private sectors on gross earnings and pensions by three additional years until 31 December 2016.

I.4 Reduce the number of public sector employees by at least four thousand five hundred over the period of 2012-16 by: i) freezing the hiring of new personnel on first entry posts in the broader public sector for three additional years until 31 December 2016; ii) implementing a policy of recruiting one person for every four retirees (horizontal); iii) introducing measures to increase the mobility of civil servants within and across line ministries (see 3.10); and iv) implementing a four-year plan aimed at the abolition of at least 1880 permanent posts (see I.16).

I.5 Freeze the hiring of new hourly paid employees and enforce immediate application of mobility within and across ministries and other government entities. In the case of health and security posts, recruitment of one person for every five retirees will be possible to meet urgent needs.

Revenue measures

I.6 Appropriate a one-off additional dividend income collected from semi-governmental organisations.

I.7 Increase the bank levy on deposits raised by banks and credit institutions in Cyprus from 0.095% to 0.11% with 25/60 of the revenue earmarked for a special account for a Financial Stability Fund.

I.8 Introduce a mechanism for a regular review of excise taxes to secure the real value of excise tax revenue. Such a mechanism should be non-recurring and should, by no means lead to an automatic indexation mechanism of excise taxes to price developments.

Fiscal measures with effect in 2013

Expenditure measures

I.9 Ensure a reduction in total outlays for social transfers by at least EUR 113 million through: (a) the abolition of a number of redundant and overlapping schemes such as the

mothers allowance, other family allowances and educational allowances; and (b) the abolition of supplementary allowances under public assistance, the abolition of the special grant and the streamlining of the Easter allowance for pensioners.

I.10 Ensure a reduction of at least EUR 29 million in the total outlays of allowances for employees in the public and broader public sector by:

- i. taxing pensionable allowances provided to senior government officials and employees (secretarial services, representation, and hospitality allowances) in the public and broader public sector;
- ii. reducing the allowances provided to broader public sector employees and reducing all other allowances of broader public sector employees, government officials and hourly paid employees by 15%; and
- iii. reducing the daily overseas subsistence allowance for business trips by 15%. Ensure a further reduction the subsistence allowance of the current allowance when lunch/dinner is offered by 50% (20% - 45% of overseas subsistence allowance instead of 40% - 90% currently paid).

I.11 Reduce certain benefits and privileges for state officials and senior government officials, in particular by:

- i. suspending the right to travel first/business class by state officials, senior government officials and employees with the exception of transatlantic travel. The right to business class travel shall be maintained for the President of the Republic of Cyprus and the President of the House of Representatives;
- ii. abolishing the right to duty free vehicles for employed and retired senior public sector officials; and
- iii. extending the wage freeze and temporary contribution on gross earnings to cover all state officials and permanent secretaries (129 individuals) for 2013-2016, including members of the House of Representatives. Include pensionable and tax-free allowances of these individuals in the calculation of their taxable income. Introduce a contribution of 6.8% on the pensionable earnings of these individuals.

I.12 Implement the following measures regarding the Government Pension Scheme (GEPS):

- i. freeze public sector pensions;
- ii. increase the statutory retirement age by 2 years for the various categories of employees; increase the minimum age for entitlement to an unreduced pension (by 6 months per year) to be in line with the statutory retirement age; while preserving acquired rights, introduce an early retirement penalty of 0.5% per month of early retirement so as to make early retirement actuarially neutral;
- iii. reduce preferential treatment of specific groups of employees, like members of the army and police force, in the occupational pension plans, in particular concerning the contribution to the lump-sum benefits;
- iv. introduce a permanent contribution of 3% on pensionable earnings to Widows and Orphans Fund by state officials who are entitled to a pension and gratuity. Introduce a contribution of 6.8% on pensionable earnings by officials, who are entitled to a

pension and gratuity but are not covered by the government's pension scheme or any other similar plan;

v. amend Article 37 of the Pensions Law to abolish the provision according to which, in the case of death of an employee, if the deceased had a wife/husband at the time of his/her retirement and thereafter he/she remarried, his/her last wife/husband is considered a widow/widower. With the abolition of this provision, the second wife/husband will not be considered a widow/widower and thus she/he will not be entitled to pension;

vi. increase the contribution rate on the pensionable earnings of the members of the Tax Tribunal Council and the Tender Review Authority from 3.4% to 6.8%; and

vii. the contributions to the Widows and Orphans Fund will no longer be reimbursable.

viii. introduce an automatic adjustment of the statutory retirement age every 5 years in line with changes in life expectancy at the statutory retirement age, to be applied for the first time in 2018; ix. introduce a change of indexation of all benefits from wages to prices; and

x. pension benefits will be calculated on a pro-rata basis taking into account life-time service as of January 2013 (in place since January 2013).

I.13 Implement further reform steps under the General Social Insurance Scheme by:

i. actuarially reducing pension entitlements from the General Social Insurance Scheme by 0.5% per month for retirements earlier than the statutory retirement age at the latest from January 2013, in line with the planned increase in the minimum age for entitlement to an unreduced pension to reach 65 (by 6 months per year), between 2013 and 2016;

ii. freezing pensions under the Social Security Fund for the period 2013-2016;

iii. abolishing the increase of pensions for a working dependent spouse under the General Social Insurance Scheme at the latest from January 2013 onwards.

iv. increase the minimum age for entitlement to an unreduced pension by 6 months per year to be brought in line with the statutory retirement age;

v. introduce an early retirement penalty of 0.5% per month of early retirement so as to make early retirement actuarially neutral;

vi. introduce an automatic adjustment of the statutory retirement age every 5 years in line with changes in life expectancy at the statutory retirement age, to be applied for the first time in 2018;

vii. gradually (1 year per year) extend the minimum contributory period in the system from the current 10 years to at least 15 years over the period 2013-17 (in place since December 2012); and

viii. ensure that pension entitlements that will accrue after 1 January 2013 are considered as personal income, thus becoming fully taxable also in the case in which they are received as a lump-sum payment. At the same time, employees will be granted the option of converting all or part of the lump-sum into an actuarially neutral annuity (in place since January 2013).

I.14 Reduce transfers by EUR 25 million from central government to state-owned enterprises and semi-public institutions.

I.15 Ensure a targeted reduction of budgetary appropriations for a series of semi-governmental organisations in the 2013 Budget Law, supported by well-defined activity-reducing measures.

I.16 Implement a four-year plan as prepared by the Public Administration and Personnel Department aimed at the abolition of at least 1880 permanent posts over the period 2013-2016.

The additional permanent expenditure measures for 2013, which were adopted by Cyprus **prior to the granting** of the first disbursement of financial assistance:

I.17 Introduce the following measures to control healthcare expenditure:.

a. abolish the category of beneficiaries class "B" and all exemptions for access to free public health care based on all non-income related categories except for persons suffering from certain chronic diseases depending on illness severity. Introduce as a first step towards a system of universal coverage a compulsory health care contribution for public servants and public servant pensioners of 1.5% of gross salaries and pensions. The measure will be reviewed **by Q2-2014** with the programme partners. For families with three or more dependent children, the participation in this health care scheme will be voluntary;

b. increase fees for medical services for non-beneficiaries by 30% to reflect the associated costs of medical services and create a co-payment formula with zero or low admission fees for visiting general practitioners, and increase fees for using higher levels of care for all patients irrespective of age;

c. introduce effective financial disincentives for using emergency care services in non-urgent situations;

d. introduce financial disincentives (co-payment) to minimise the provision of medically unnecessary laboratory test and pharmaceuticals; and

e. adopt a new decision by the Council of Ministers concerning a restructuring plan for public hospitals, improving quality and optimising costs and redesigning the organisational structure of the hospital management, by putting into practice recommendations from the 2009 "Public Hospital Roadmap".

I.18 Reduce the expenditure on various housing schemes by at least EUR 36 million by consolidating and streamlining the schemes for the displaced and the Comprehensive Housing Scheme, discontinuing the special grant for acquiring a first residence and ceasing the provision of loans and loan guarantees related to house construction and acquisition under all government-administered housing schemes.

I.19 Further streamline the Easter allowance to pensioners by limiting the benefit to pensioners with a monthly per household income of at most EUR 500.

I.20 Implement a scaled reduction in emoluments of public and broader public sector pensioners and employees as follows: EUR 0-2.000: 0.8%; EUR 2.001-3.000: 1%; EUR 3.001-4.000: 1.5%; above EUR 4001: 2.0 %.

In addition:

A compensation scheme for provident and retirement funds in Cyprus Popular Bank. The scheme should meet the following criteria: (i) ensure comparable treatment with such funds in Bank of Cyprus, (ii) take into account the cash-flow and actuarial position of each fund in determining timing by which the compensation will take place, (iii) minimise the impact on the general government deficit and ensuring its one-off nature. Given the social welfare nature of provident and retirement funds, the Cypriot authorities will earmark an amount of up to EUR 299 million out of the state budget, for such compensation, of which up to a maximum of EUR 154 million can be released, before the second review of the adjustment programme.

Revenue measures

I.21 Increase excise duties on tobacco products, in particular on fine-cut smoking tobacco, from EUR 60/kg to EUR 150/kg. Increase excise duties on cigarettes by EUR 0.20/per packet of 20 cigarettes.

I.22 Increase excise duties on beer by 25% from EUR 4.78 per hl to EUR 6.00 per hl per degree of pure alcohol of final product. Increase excise duties on ethyl alcohol from EUR 598.01 to EUR 956.82 per hl of pure alcohol.

I.23 Increase excise duties on energy, i.e., on oil products, by increasing tax rate on motor fuels (petrol and gasoil) by EUR 0.07.

I.24 Increase the standard VAT rate from 17% to 18%.

I.25 Introduce a tax of 20% on gains distributed to winners of betting by the Greek Organisation of Football Prognostics S.A. (OPAP) and the National Lottery for winnings of EUR 5,000 or more.

I.26 Abolish all exceptions currently in place for paying the annual company levy of EUR 350.

The additional permanent revenue measures for 2013, which were adopted by Cyprus **prior to the granting** of the first disbursement of financial assistance:

I.27 Ensure additional revenues from property taxation of at least EUR 75 million by: (i) updating the 1980 prices through application of the CPI index for the period 1980 to 2012; and/or (ii) amending tax rates and/or (iii) amending value bands.

I.28 Increase the statutory corporate income tax rate to 12.5%.

I.29 Increase the tax rate on interest income to 30%.

I.30 Increase the bank levy on deposits raised by banks and credit institutions in Cyprus from 0.11% to 0.15% with 25/60 of the revenue earmarked for a special account for a Financial Stability Fund.

I.31 Complete the increase in fees for public services by at least 17% of the current values

Fiscal measures with effect in 2014

Expenditure measures

I.32 Ensure a reduction in total outlays for social transfers by a at least EUR 28.5 million to be achieved through streamlining and better targeting of child benefits and educational grants, and abolition of social cohesion benefits provided by the welfare services.

I.33 Implement a further reduction in emoluments of public and broader public sector employees and pensioners by a flat rate reduction of 3% on all wages.

I.34 Introduce a fee on monthly transportation cards for the use of public transportation services by students and pensioners.

I.35 Introduce as of the budget year 2014 structural reform measures in the educational system, notably, a reduction of the number of teachers seconded to the Ministry of Education and Culture, the removal of 1:1.5 teaching time ratio from evening schools of general and technical and vocational education, the elimination of teaching time concession to teachers for being placed in two or more educational districts, the elimination of mentoring components for pre-service and in-service training for newly appointed teachers and the reduction of the cost of afternoon and evening programmes.

I.36 Ensure additional expenditure savings by a further reduction of public sector allowances and streamlining of overtime compensation, including by revising the formula for calculating overtime compensation on weekdays and in weekends for state officers and apply the revision pro rata in the case of hourly paid employees;

I.37 A further targeting of social pensions;

I.38 An abolition of income tax exemption for certain pension schemes;

I.39 A reduction in the tax-free threshold for lottery gains;

Revenue measures

I.40 Extend the application of the temporary contribution on gross earnings and pensions of public and private sector employees up to 31 December 2016 as follows: EUR 0 – 1,500: 0%; EUR 1,501 – 2,500: 2.5%; EUR 2,501 – 3,500: 3.0%; and > EUR 3,501 - : 3.5%.

I.41 Increase the standard VAT rate from 18% in 2013 to 19% in 2014.

I.42 Increase the reduced VAT rate from 8% to 9%.

I.42 Increase excise duties on energy, i.e., on oil products, by increasing the tax rate on motor fuels (petrol and gasoil) by EUR 0.05.

I.43 Increase the contributions, as of 1.1.2014, of salaried employees and employers to the GSIS by an additional 1 percentage point on pensionable earnings, i.e. 0.5 of a percentage point from employees and 0.5 of a percentage point from employers and 1 percentage point in the case of self-employed persons.

I.44 A reform of the tax system for motor vehicles with effect from budget year 2014, based on environmentally-friendly principles, with a view to raising additional revenues in the medium-term, through the annual road tax, the registration fee and excise duties, including motor fuel duties. The reform will take into account the related study of the University of Cyprus.

I.45 An introduction of a contribution of 3% on salaries of casual employees servicing on a contract basis, who receive gratuity including volunteers of 5 years services and police constables.

Annex 2**The AML Action Plan by Cyprus on customer due diligence and entity transparency**

| | <i>Heading/Deficiency</i> | <i>Action</i> | <i>Timeline</i> |
|-----|---|---|--------------------------|
| 1 | <u>Customer Due Diligence</u> | | |
| | | | |
| 1.1 | Business profile | | |
| | Business profiles not always properly established. | 1.1.1 CBC to provide guidance to ensure that obliged entities engage in adequate training of all staff involved in establishing customer business relationships and opening accounts, so that business profiles are properly determined and assigned. | Compliant |
| 1.2 | Customer risk profile | | |
| | Lack of understanding of cumulative risks in complex ownership structures / introduced business. | 1.2.1 CBC to provide sufficient guidance to ensure that obliged entities have sound and effective risk management systems in place to identify and understand ML/TF risks within their customers, products and services, geographical locations/areas, and delivery channels. Risk management systems should include an overall policy for identifying and understanding, measuring, controlling, and monitoring ML/TF risks. The risk management policies, procedures and measures should be submitted to the board for approval on an annual basis, or as required by changes in the business model. | Compliant Ongoing |
| | New legislative measures. | 1.2.2 CBC and other supervisory authorities to issue guidance to obliged entities in order to explain the new provisions on the introduction of tax crimes (including tax evasion) as predicate offences. | Compliant |
| | Particular issues relating to PEPs. | 1.2.3 CBC to issue additional guidance to obliged entities to adequately identify and establish the source of wealth for PEPs or for customers that become PEPs after the business relationship has been accepted. | Compliant |
| 1.3 | Ongoing CDD | | |
| | Higher risk customers/changes in risk not dealt with appropriately on an ongoing basis. Particular issues relating to PEPs. | 1.3.1 CBC to issue additional guidance to ensure that financial institutions have sound and effective systems and measures in place to demonstrate enhanced ongoing monitoring for higher risk clients, including PEPs. 1.3.2. CBC to ensure that financial institutions have sound and effective systems and measures including updated CDD measures. | Compliant Ongoing |
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| 2 | <u>Reliance/introduced business</u> | | |
| | Use of introducers allowed by CY legislation and is widespread. | 2.1 CBC to review, strengthen, and amend as needed the regulatory framework and the relevant requirements relating to the use of introducers/third parties to ensure compliance by obliged entities establishing business relationships and/or opening accounts through third parties. | Compliant |
| | Training/awareness in institutions. | 2.2.1 CBC to reiterate and clarify the obligation under the CBC directive that obliged entities are required to establish adequate AML/CFT training programs for all staff responsible for establishing business relationships and/or opening customer accounts and updating customer information. 2.2.2 CBC to ensure that training programs are implemented and include information on current ML and TF techniques, methods and trends, and clear explanations of all aspects of the AML/CFT laws, regulations. In particular, this should include requirements concerning CDD, suspicious transaction reporting and sanctions for non-compliance. | Compliant Ongoing |
| | Mechanisms for coordination with supervisors of introducers | 2.3 CBC to establish co-operation mechanisms with CySEC, the Cyprus Bar Association and ICPAC (for accountants) for exchanging information and ensuring supervisory coordination. | Compliant |
| | | | |
| 3 | <u>Suspicious Transaction Reporting</u> | | |
| | Changes in the legal framework. | 3.1 MOKAS to reiterate and clarify through further training the requirements to report STRs, including the new duty to report issues relating to tax crimes as of December 2012, in coordination with relevant supervisory authorities. | Compliant |
| | | | |
| 4 | <u>Transparency of beneficial ownership</u> | | |
| 4.1 | <u>Access to information</u> | | |
| | Ensure that transparency and availability of beneficial ownership information is in line with international standards and best practice. | 4.1.1 Revision of Trust and Company Services Providers Law as appropriate and AML Law to ensure that adequate, accurate and timely information on the beneficial ownership of Cypriot legal persons and arrangements can be provided to the domestic competent authorities and their foreign counterparts; and revise the directives and circulars issued by supervisory authorities (CBC, CySEC, Cyprus Bar Association, ICPAC). 4.1.2. In the case of nominees, either a) require nominee directors ³ and nominee shareholders to disclose the identity of their nominator to the company and to the company register; or b) require that all nominee directors and nominee | Compliant Compliant |

³ Under Cyprus law, there is no legal concept of “nominee director”, but it is used with reference to professionals who provide director services.

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| | | shareholders be authorised or otherwise regulated (i.e. as lawyers, accountants or TCSPs) and maintain information on the identity of their nominator, which is to be made available to the competent authorities upon request. A record of director's or shareholder's nominee status will be accessible through the registers under the TCSP Law, which list all regulated persons (i.e. lawyers, accountant and TCSPs). | |
| 4.2 | Company Registry | | |
| | Efficiency of Companies' Registrar as an important aid to CDD. | 4.2.1 Carry out a third party review of the functioning of the Companies' Registrar and communicate results to the programme partners. 4.2.2 Ensure the department of the registrar is appropriately resourced. | Compliant Ongoing |
| 4.3 | Register of Trusts | | |
| | Enhance the transparency of trusts in line with international standards and best practice. | 4.3.1 CY to establish trust registries with the supervisory authorities for all express trusts established under CY law, where the name of the trust and the name and address of the trustee will be contained therein. The trust registers will be accessible by the supervisory authorities in order to facilitate them in their supervisory duties. | Compliant |
| 5 | <u>Supervision of financial institutions</u> | | |
| 5.1 | Revise the AML/CFT supervisory structure within the CBC, ensuring it is adequately resourced | 5.1.1 Revise and/or establish organisation structure and management within the CBC's Banking Supervision and Regulation Department (BSRD) to address AML/CFT matters, ⁴ in order to conduct adequate, timely and proactive risk-based AML/CFT supervision. | Compliant |
| | | 5.1.2 CBC to ensure adequate human resources and technical capacity to undertake effective AML/CFT supervision. The level of resources should be commensurate with the size, complexity, and risk profiles of the financial institutions operating in the system. ⁵ To meet this objective, if deemed necessary by the CBC, hire AML/CFT experts with the necessary professional skills and experience (e.g. foreign supervisors retired or on leave) – subject to necessary confidentiality restrictions. ⁶ | Compliant |

⁴ in accordance with BCP 2 and FATF 26-27

⁵ FATF Immediate Outcome (IO) 3

⁶ See BCP 2.6c

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| 5.2 | Develop risk-based supervisory tool(s) for offsite surveillance/monitoring activities prior to implementation | 5.2.1 Design, develop, adopt and pilot, for a selected group of financial institutions, a risk assessment methodology and tool(s) that provides for: <ul style="list-style-type: none"> - a comprehensive analysis of inherent ML/TF risks within the following risk factors: customers, products & services, geographic locations/areas,⁷ and delivery channels; - an assessment of the internal control environment that should be in place to mitigate and/or control the inherent ML/TF risks, as identified and measured; - institutional risk profiles; - specific AML/CFT supervisory strategies (adapted to institutional risk profiles). | Compliant |
| 5.3 | Develop risk-based supervisory tool(s) for onsite inspections prior to implementation | 5.3.1 Design, develop, adopt and pilot, for a selected group of financial institutions, a methodology for onsite activities, including the necessary examination/verification procedures for onsite inspections. Examination procedures, should include, at a minimum: <ul style="list-style-type: none"> -Corporate Governance; -Risk Assessment Systems; -Policies & Procedures; -Compliance Function; -Internal & External Audit Functions; -Training Program. | Compliant |
| 5.4 | Establish Formal AML/CFT Training Program | 5.4.1 Establish a formal AML/CFT training program for CBC staff to ensure adequate implementation of the offsite and onsite tools. Develop and deliver customised AML/CFT training to supervisory staff in topics including, but not limited to: <ul style="list-style-type: none"> - newly developed offsite and onsite risk-based tools; - customer acceptance policies; - customer due diligence (CDD); - monitoring of transactions; - identification and reporting of STR; - funds transfers; - correspondent banking; - recordkeeping; - compliance function; - internal controls; - audit functions; - corporate governance; - risk assessment systems | Partially compliant Q2 - 2015 |

⁷ The off-site supervisory tool will include monthly reporting by obliged entities on the breakdown by country of origin of the main depositors and the main beneficiaries of loans (and of their beneficial owners).

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| | | 5.4.2 Provide CBC supervisory staff with ongoing training to ensure adequate knowledge of risks and supervisory techniques. | Ongoing |
| 5.5 | Implement adequate supervision | 5.5.1.a. CBC to establish corrective actions and follow-up on the cases revealed by Deloitte. | Compliant |
| | | 5.5.1.b. Apply appropriate enforcement actions with regard to any breaches of compliance, and apply sanctions if applicable. | Compliant |
| | | 5.5.2 On a quarterly basis, in the context of the programme review, starting Q4 2013 the CBC will on a confidential basis, share anonymised information with the programme partners, by granting access to supervisory assessments and information about enforcement actions applied for non-compliance and /or violations of laws and regulations. | Ongoing |
| | | Subsequent to the successful development of the tools stipulated under 5.2 and 5.3, the CBC will undertake the following: 5.5.3.1 Implement and adjust the new risk-based offsite analytical tool(s) using the results of the pilot reviews, and develop an onsite supervisory program for 2014. 5.5.3.2 Assign institutional ML/TF risk profiles to financial institutions reviewed under the pilot exercise. 5.5.3.3 Develop customised supervisory strategies for financial institutions reviewed under the pilot exercise. 5.5.3.4 Apply the risk-based off-site analytical tools, assign ML/TF risk profiles, and developed customised supervisory strategies to all financial institutions under its responsibility. | Compliant Compliant Compliant Compliant |
| | | 5.5.4.1 CBC to start implementing the new examination/verification procedures in line with the inspection program for 2014, and to adjust/fine-tune the procedures using the results of the pilot inspections. | Compliant |
| | | 5.5.4.2 CBC to update the institutional risk profile and supervisory strategy based on the results of the pilot inspection. | Ongoing |
| 6. | <u>Supervision and monitoring of lawyers, accountants and TCSPs</u> | | |
| 6.1 | Align resources with risks Establish an effective monitoring structure for AML/CFT matters | 6.1.1 Ensure adequate human resources and technical capacity to undertake effective AML/CFT monitoring. The level of resources should be commensurate with the size, complexity, and risk profiles of each business and professional. To meet this objective, if deemed necessary by the supervisory authorities, hire AML/CFT experts with the necessary professional skills and experience (e.g. professionals having performed monitoring or supervision of these professions abroad) – subject to necessary confidentiality restrictions. | Ongoing |
| 6.2 | Develop risk-based tool(s) for Offsite | 6.2.1 Design, develop, adopt, and pilot a risk assessment methodology and tool(s) that provides for: - a comprehensive analysis of inherent ML/TF risks within the following risk factors: customers, products & | Compliant |

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| | surveillance/monitoring activities prior to implementation | <p>services, geographic locations/areas, and delivery channels;</p> <ul style="list-style-type: none"> - an assessment of the internal control environment that should be in place to mitigate and/or control the inherent ML/TF risks, as identified and measured; - risk profiles; - specific AML/CFT monitoring strategies (adapted to institutional risk profiles). | |
| | | <p>6.2.2.1 Implement the new offsite analytical tool(s) through pilot reviews of a selected group of business and professionals. Adjust/fine-tune the offsite analytical tool(s) using the results of the pilot reviews.</p> <p>6.2.2.2 Assign ML/TF risk profiles to businesses and professionals reviewed under the pilot exercise.</p> <p>6.2.2.3 Apply the risk-based off-site analytical tools, assign ML/TF risk profiles, and developed customized supervisory strategies to all business and professions under monitoring.</p> | <p>Compliant</p> <p>Compliant</p> <p>Compliant (CBA and ICPAC)</p> <p>Compliant (CySEC.)</p> |
| 6.3 | Develop risk-based tool(s) for Onsite inspections prior to implementation | <p>6.3.1 Design and develop a methodology for onsite activities, including the necessary examination/verification procedures for onsite inspections. Examination procedures, should include, at a minimum:</p> <ul style="list-style-type: none"> - Risk Assessment Systems - Policies & Procedures - Compliance Function - Training Program | Compliant |
| 6.4 | Establish Formal AML/CFT Training Program | <p>6.4.1 Establish formal AML/CFT training program and develop and deliver customised AML/CFT training courses. Develop and deliver customised AML/CFT training to supervisory staff in topics including, but not limited to:</p> <ul style="list-style-type: none"> - newly developed offsite and onsite risk-based tools - customer acceptance policies - customer due diligence (CDD) - monitoring of transactions - identification and reporting of STR - recordkeeping - compliance function - risk assessment systems etc. | Ongoing |
| 6.5 | Implement adequate supervision | <p>6.5.1. On a quarterly basis, in the context of the programme review, starting Q4-2013, the CySEC, CBA and ICPAC will, on a confidential basis, share anonymised information with the programme partners by granting access, to supervisory assessments and information about enforcement actions applied for non-compliance and /or violations of laws and regulations.</p> | Ongoing |
| | | Subsequent to the successful development of the tools stipulated under 6.2 and 6.3, the Supervisory authorities will | Compliant |

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| | | undertake the following: | (CBA and ICPAC) |
| | | 6.5.2 Implement the new offsite analytical tool(s) through pilot reviews of a selected group of lawyers, accountants and TCSPs. Adjust/fine-tune the offsite analytical tool(s) using the results of the pilot reviews, and come-up with a supervisory program for 2015 | Compliant (CySEC) |
| | | 6.5.3 Implement the new examination/verification procedures through pilot onsite inspections of a selected group of lawyers, accountants and TCSPs. Adjust/fine-tune the procedures using the results of the pilot inspections. | Compliant (CBA and ICPAC) Ongoing (CySEC) |

Annex 3

The Public Administration Review: Second Batch of Studies

The second batch of studies will cover the following areas:

Ministries and the Departments/Services falling under each Ministry

- i. Ministry of Labour, Welfare and Social Insurance
- ii. Ministry of Communications and Works
- iii. Ministry of Energy, Commerce, Industry and Tourism (excluding the Companies Registrar and Official Receiver, to be covered in the first batch of studies)
- iv. Ministry of Interior
- v. Ministry of Defense (excluding the National Guard and Cyprus Army)
- vi. Ministry of Justice and Public Order
- vii. Ministry of Foreign Affairs

Note: Ministry of Finance, including Treasury and the Directorate General for European Programmes, Coordination and Development (ex Planning Bureau), is being reviewed under the PFM.

Constitutional Powers /Services

- i. Law Office
- ii. Audit Office
- iii. Public Service Commission

Independent Services/Authorities

- i. Educational Service Commission
- ii. Internal Audit Service
- iii. Office of the Commissioner for Administration (Ombudsman)
- iv. Office for the Commissioner of Personal Character Data Protection
- v. Tender Review Body
- vi. Refugee's Review Body