

## **INVESTOR COMPENSATION FUND**

Cyprus Investment Firms, including their branches in other countries, are members of the Investor Compensation Fund for CIF Clients (the “Fund”). The Fund has been established under Law No.144 (I) /2007 concerning the provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters.

### **1. COVERED SERVICES**

1. The following investment services are covered by the Fund:
  - a) reception and transmission, on behalf of clients, of orders relating to the execution of transactions in one or more financial instruments;
  - b) execution on clients’ account of orders referred to in paragraph (a)
2. dealing in financial instruments for own account;
3. managing of investment portfolios on a discretionary basis, in accordance with mandates given by clients, where such portfolios include one or more financial instruments;
4. underwriting the issuance of one or more financial instruments and/or placement of such issues, as well as the non-core related service of;
5. holding in custody or administration of one or more financial instruments.

The term Financial Instruments in the preceding paragraph refers to:

- a) Transferable securities and units in collective investment undertakings;
- b) Money Market securities;
- c) Futures contracts, including other equivalent securities which allow settlement in cash;
- d) Forward Rate Agreements (FRAs);
- e) Interest rate swaps, foreign exchange swaps and equity swaps;
- f) All forms of Options and all equivalent instruments which allow settlement in cash, and in particular interest rate options and foreign exchange options.

### **2. COVERED CLIENTS**

The Fund covers participating CIF clients, except those in the following investor categories:

1. Institutional and professional investors such as:
  - a) Investment Firms (IFs);
  - b) Legal entities associated with the CIF and, in general, belonging to the same group of companies as the CIF;
  - c) Banks;
  - d) Co-operative credit institutions;
  - e) Insurance companies;
  - f) Collective investment undertakings in transferable securities and their management companies;
  - g) Social insurance institutions and funds;
  - h) Investors classified as professionals, upon investors’ own request, in accordance with articles 14 and 15 of the Code of Professional Conduct of Investment Firms.

2. States and supranational organizations;
3. Central, federal, confederate, regional and local administrative authorities;
4. Enterprises associated with the CIF;
5. Executive and managerial officers of a participating CIF;
6. Shareholders of a participating CIF whose director or indirect shareholding in the participating
7. CIF's capital amounts to at least 5% of its share capital, or the participating CIF's associates who are personally liable for the participating CIF's obligations, as well as persons responsible for carrying out the financial audit of a participating CIF as provided by the Law, such as its qualified auditors;
8. Investors holding positions or duties corresponding to the ones listed in 3.5 and 3.6 above in enterprises which are either associated or in general belong to the same group of companies as the participating CIF;
9. Up to and including second degree relatives and spouses of persons listed in paragraphs 3.5, 3.6 and 3.7, as well as third parties acting on behalf of these persons;
10. Investors-clients of a participating CIF responsible for events which have caused financial difficulties to the participating CIF or which have contributed to the aggravation of its financial situation, or investors-clients of a participating CIFs who have benefited from such events;
11. Corporate Investors which due to their size are not allowed to draw a summary balance sheet in accordance with the Companies Act of the Republic of Cyprus or a corresponding law of a member state of the European Union.

Note that the Fund is prohibited from paying compensation against claims arising from transactions of persons convicted of a criminal offence, for the aforementioned transactions, under the Prevention and Suppression of Money Laundering Activities Law of 2007 and 2010.

### **3. PURPOSE OF THE FUND**

The purpose of the Fund is to secure the claims of covered clients against the Fund's participating CIFs through the payment of compensation for claims arising from covered services offered by participating CIFs, provided that a participating CIF's failure to fulfil its obligations has been ascertained.

Failure by a participating CIF to fulfil its obligations comprises its failure to:

- a) either (i) reimburse funds owed to covered clients, or (ii) return funds belonging to covered clients but which are, directly or indirectly, held by the participating CIF in the context of providing covered services to the said clients and for which the clients requested their return, in exercising their relevant right.
- b) hand over to the covered clients financial instruments which belong to them and which the participating CIF holds, manages or keeps on their behalf, including cases where the participating CIF is responsible for the administrative management of said financial instruments.

### **4. PREREQUISITES FOR INITIATING THE COMPENSATION PAYMENT PROCEDURE**

The Fund initiates compensation payment procedures when **at least one** of the following prerequisites is met:

- a) The Cyprus Securities and Exchange Commission deemed through a relevant decision that a participating CIF does not appear, for the time being, able to meet its obligations arising from its investors-clients' claims, in connection with covered services provided, as long as such inability is directly related to the participating CIF's financial position which is not expected to improve in the near future;

- b) A Court issued a ruling suspending a participating CIF's investors-clients' capacity to lodge claims against the participating CIF based on grounds directly related to the participating CIF's financial position.

Upon issuance of a decision by CySEC or a Court ruling in accordance with paragraphs (a) and (b) above, for the commencement of compensation payment procedures, the Fund publishes in at least three newspapers of broad national circulation, an invitation to covered clients to make their claims, arising from covered services, against the affected participating bank. The initiation should designate the procedure, content and deadline for submission of pertinent applications.

## **5. CALCULATING THE AMOUNT OF PAYABLE COMPENSATION**

The amount of compensation payable to each covered client is calculated in accordance with the legal and contractual terms governing the covered client's relations with the participating CIF, subject to the set-off rules that apply for the calculation of claims between the covered client and the participating CIF.

The amount of payable compensation is derived by summing up all of the covered client's documented claims against the participating CIF. Such claims arise from all accounts to which a client is a beneficiary regardless of currency and from all covered services provided by the participating CIF regardless of where such services were provided.

Insofar as the amount of the claim determined exceeds EUR20,000, the claimant shall receive as compensation the lump sum of EUR20,000.

Upon completing the valuation, the Fund:

- a) within five working days, delivers to both CySEC and the participating CIF its minutes which list the participating CIF clients who are entitled to compensation and the amount of money each one of them is entitled to receive;
- b) within fifteen days of issuing its minutes, communicates its findings to each affected client determining the total amount of compensation the client is entitled to receive.

In case of disagreement with the Fund's decision, the claimant has the right to appeal to CySEC justifying sufficiently the alleged claim within ten days from receiving the relevant communication.

The Fund is obliged to compensate each covered client – claimant within three months of dispatching to CySEC the minutes listing the beneficiaries and their compensation.

For any further information, please contact:

The Management Committee  
Investor Compensation Fund for CIF Clients  
Cyprus Securities and Exchange Commission  
Stasikratous 32, 4th floor  
1065 Nicosia

