

# CENTRAL BANK OF CYPRUS

EUROSYSTEM

## THE SALE OF CREDIT FACILITIES AND OTHER RELATED MATTERS LAW OF 2015

Unofficial translation of

### THE AUTHORISATION OF CREDIT ACQUIRING COMPANIES DIRECTIVE OF 2016

The Central Bank issues this Directive by virtue of the powers vested on it by section 17 of the Sale of Credit Facilities and Other Related Matters Law of 2015.

#### PART I

##### GENERAL PROVISIONS

Short title. 1. This Directive shall be cited as the Authorisations of Credit Acquiring Companies Directive of 2016.

Interpretation. 2. For the purposes of this Directive the definitions in section 2 of the Sale of Credit Facilities and other Related Matters Law of 2015 apply, as well as the following definitions, unless a different meaning otherwise arises from the text:

“assessed person” means:

(a) the candidate or appointed and under reassessment member of the management body of a credit acquiring company and

(b) the proposed or existing and under reassessment key function holder of a credit acquiring company.

“shareholder” means a holder of a qualifying holding and in case where there are no qualifying holdings, the twenty (20) largest shareholders with participation equal to or in excess of five percent (5%) in a credit acquiring company.

#### PART II

##### THE TAKING UP AND PURSUIT OF THE ACTIVITY OF CREDIT ACQUIRING COMPANIES

Application. 3.(1) For the purposes of obtaining authorisation for the activity of a credit acquiring company, an application must be submitted to the Central Bank, by or on behalf of the applicant company, accompanied by:

(a) the information and documents specified in points (a) to (f) of subsection (1) of section 5 of the Law; and

(b) at least the following information and documents, which the Central Bank considers necessary for the assessment of the application, in accordance with point (g) of subsection (1) of section 5 of the Law:

(i) a business plan that includes a budget for the first two financial years, which demonstrates that the applicant company will have the necessary resources to employ systems and procedures that are appropriate and proportionate to its activities as envisaged in its business plan, in order to ensure its sound operation,

(ii) evidence that the applicant company has available the minimum capital required in accordance with subsection (1) of section 11 of the Law, like, for instance, a relevant confirmation by an independent audit firm or a recent certified bank statement,

(iii) a description of the governance framework and of the internal control mechanisms of the applicant company, which demonstrates that the internal governance framework and the control mechanisms are appropriate, adequate and proportionate to its business plan,

(iv) a description of the procedures for the handling and monitoring of customers' complaints,

(v) a description of the systems that will be implemented for the collection of statistical and supervisory data,

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(vi) a description of the internal control mechanisms which the applicant company intends to establish in order to comply with the requirements of the Prevention and Suppression of Money Laundering Activities Law of 2007 to 2013, as this may be amended or replaced,

(vii) the most recent audited financial statements of the applicant company together with the unaudited financial statements of the current year, unless the applicant company is a newly formed company. In case there is a parent company or the applicant company belongs to a group, the applicant company must also submit to the Central Bank a copy of the most recent audited financial statements of the parent company and/or of the group, and

(viii) any relevant information in case of a intended outsourcing of operational activities to third parties.

(2) The Central Bank may consult any other authority whether in the Republic or abroad for the purpose of the assessment of the application;

(3) The application and the accompanying information and documents prescribed in points (a) and (b) of subparagraph 1, must be submitted using the application form and relevant questionnaires which are available on the website of the Central Bank and they should be duly completed and signed;

(4) The applicant company must designate and authorise a suitable person for the submission of the documentation and for any communication needed with the officers of the Central Bank for the purposes of the assessment of the application.

## PART III

### ASSESSMENT OF FITNESS & PROBITY

Assessment Criteria. **4.** All the shareholders and assessed persons must be of good repute, and, in particular the assessed persons, must possess adequate knowledge, skills and experience that is relevant for the performance of their duties, in order to ensure the sound and prudent management of the credit acquiring company.

**5.** An assessed person or shareholder, is deemed to be of good repute at least if:

(i) there is no evidence to the contrary and no reason to raise reasonable doubts about their good repute, and

(ii) the personal and business conduct does not give rise to any material doubts about their ability to ensure the sound and prudent management of the credit acquiring company.

Responsibilities of credit acquiring companies. **6.(1)** The credit acquiring company has the first and foremost responsibility for the initial and for the ongoing assessment of the fitness and probity of the assessed persons.

(2) During the assessment of the fitness of an assessed person, the credit acquiring company shall consider all relevant parameters including, but without limitation:

(a) the nature, scale and complexity of the business of the credit acquiring company and the responsibilities of the position concerned and

(b) whether the person has demonstrated that he has adequate knowledge and experience and understands the duties and responsibilities that will be undertaken, in order to successfully execute the duties and responsibilities deriving from the appointment.

(3) For the purpose of the assessment of the experience of an assessed person, the credit acquiring company shall assess:

(a) the theoretical experience attained through education and training and

(b) the practical experience gained in previous occupations, taking into consideration the skills and knowledge acquired and demonstrated in the professional conduct ;

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(4) For the purpose of the assessment of the probity, the company shall ensure, inter alia, that the assessed person is reliable and of good repute, regardless of the nature, scale and complexity of the business of the credit acquiring company.

(5) For the purpose of the assessment of the fitness and probity of a proposed member of the management body, the credit acquiring company must also examine whether criteria relevant for the effective functioning of the management body are fulfilled, including, inter alia, the following:

(a) potential conflicts of interest;

(b) the overall composition of the management body and collective knowledge and expertise required; and

(c) the member's ability to perform his/her duties independently, without undue influence by other persons.

Reassessment.

7. The credit acquiring companies must reassess the fitness and probity of members of the management body and key function holders, on the basis of the assessment criteria included in this Directive, at least when events make reassessment necessary in order to verify the ongoing fitness and probity of the person in question.

Assessment by the Central Bank

8.(1) For the purposes of the assessment of the fitness and probity, the shareholders and the assessed persons must duly complete and sign the relevant questionnaires that are available on the website of the Central Bank and which are directly accessible.

(2)(a) The credit acquiring companies may apply to the Central Bank to exempt key function holders from the requirement to complete a questionnaire, having taken into consideration the nature, size and complexity of the business of the company, as well as the responsibilities of the position concerned.

(b) In the cases referred to in point (a), the credit acquiring company submits to the Central Bank, a confirmation that it has been fully satisfied with regard to the fitness and probity of that proposed or existing key function holder.

## PART IV

### INTERNAL ORGANISATION AND GOVERNANCE

General Requirements

9.(1) Each credit acquiring company must have robust governance arrangements that are consistent with and promote the sound and effective risk management and which include:

(a) a clear organisational structure with well-defined, transparent and consistent lines of responsibility;

(b) effective processes to identify, manage, monitor and report the risks they are or might be exposed to;

(c) adequate internal control mechanisms; and

(d) sound administration and accounting procedures.

(2) The arrangements, processes and mechanisms referred to in subparagraph (1) must be comprehensive but also proportionate to the nature, scale and complexity of the risks inherent in the business model of the credit acquiring company.

Size and Composition of Management Body.

10. The size and composition of the management body must be set by taking into account the size and complexity of the credit acquiring company and the nature and scope of its activities, ensuring that:

(a) the executive members are at least two (2), one of which is the chief executive;

(b) the management body is sufficiently diverse to reflect an adequately broad range of experiences in the management of credit facilities including restructuring; and

(c) the management body possesses adequate collective knowledge, skills and experience to be able to understand the activities of the credit acquiring company, and

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in particular the main risks inherent in its business model.

## PART V

### OUTSOURCING OF OPERATIONAL ACTIVITIES TO THIRD PARTIES

Notification to the Central Bank.

**11.(1)** In case a credit acquiring company intends to outsource any significant operational functions to third parties it must inform the Central Bank accordingly and obtain its prior approval.

Conditions for outsourcing.

**12.** Any outsourcing of significant operational functions shall meet the following conditions:

(a) the outsourcing shall not result in the delegation of the responsibilities of the credit acquiring company or its executives;

(b) the relationship of the credit acquiring company with its borrowers and its obligations towards them under the Law and this Directive shall not be altered;

(c) the terms and conditions which the credit acquiring company must comply with in order to obtain and to maintain authorisation in accordance with the Law shall not be affected; and

(d) any contract for the outsourcing of significant operational functions of the credit acquiring company includes a provision that the person to whom the outsourced services are assigned, shall submit to the Central Bank any information relating to these services that the Central Bank may require.

## PART VI

### PROCEDURES FOR THE REVIEW, MANAGEMENT AND RESTRUCTURING OF NON PERFORMING LOANS

Compliance with Arrears Management Directive, Official Gazette No. 4862 03.04.2015 R.A.A. 107/2015

**13.(1)** For the purposes of implementing point (e) of subsection (2) of section 17 of the Law, the credit acquiring company must comply with the provisions of the "Code of Conduct on the Handling of Borrowers in Financial Difficulties" which is annexed to the "Directive on Arrears Management of 2015", as this may be amended or replaced, which issued by the Central Bank pursuant to section 41 of the Business of Credit Institutions Laws of 1997 to (No. 8) 2015.

(2) For the purposes of this Directive, where the term credit institution is referred in the Arrears Management Directive, it is deemed that the reference shall be to a credit acquiring company.

## PART VII

### FINAL PROVISIONS

Entry into force.

**14.** This Directive shall enter into force on the date of its publication.