

Chapter 1: Scope/Powers/Offences

Law 87(I) of 2017 was enacted to transpose European Union (EU) directive 2014/65, the Markets in Financial Instruments Directive (MiFID), and the subsequent update, EU/2017/565, MiFID II, into Cypriot law. Law 87 replaces the Investment Services Law of 2007–16 unless otherwise specified.

1. Scope, Application and Structure

1.1. Scope and Application

Law 87(I)/2017 applies to **Cypriot investment firms (CIFs)**, market operators, data reporting service providers (DRSP), and third-country firms providing investment services or activities through the establishment of a branch in the Republic. The Law regulates:

1. authorisation conditions for CIFs and operating conditions for investment firms (IFs)
2. the provision of investment services or activities by third-country firms through the establishment of a branch
3. authorisation and operation of the regulated markets of the Republic
4. authorisation and operation of DRSPs
5. supervision, cooperation and enforcement by competent authorities, and
6. other related matters.

The following specific provisions also apply to credit institutions undertaking investment services or activities covered by the authorisation granted to them by the competent authority of another EU **member state**:

- Governance arrangements.
- Membership of an authorised investor compensation scheme.
- Organisational requirements.
- Algorithmic trading.
- Trading process and finalisation of transactions in a multilateral trading facility (MTF) and an organised trading facility (OTF).
- Specific requirements for MTFs and OTFs.
- Provisions to ensure investor protection.
- Rights of IFs and credit institutions (except the provision of services, and the establishment of branches, in member states).
- Competent authorities: designation, powers and redress procedures.
- Cooperation between competent authorities in supervisory activities for on-site verification of investigations.
- The powers of the Commission as a host member state.
- Precautionary measures to be taken by host member states.
- Persons employed by CIFs.

In addition, the following also apply to authorised credit institutions that sell or advise clients in relation to structured products:

- Governance arrangements.
- Membership of an authorised investor compensation scheme.
- Organisational requirements.
- Conflicts of interest.
- Investor protection.
- Client order handling.
- Obligations when appointing tied agents.
- Transactions executed with eligible counterparties.
- Competent authorities: designation, powers and redress procedures.

Algorithmic trading requirements also apply to members or participants of regulated markets and MTFs that are not required to be regulated.

All multilateral systems in financial instruments need to operate either in accordance with the authorisation and operating conditions for CIFs, or with the conditions for regulated markets of the Republic. When executing client orders outside a regulated market, an MTF or OTF needs to operate in accordance with the transparency requirements for systematic internalisers and investment firms trading over-the-counter (OTC).

1.2. Exemptions

There are a number of organisations that are exempt from Law 87(I)/2017 (as listed below). However, for each of these, the requirements in relation to position limits and position management controls in commodity derivatives and reporting remain applicable.

Organisations carrying out the following are exempt from Law 87(I)/2017:

1. Undertaking insurance, reinsurance and retrocession activities as defined in the insurance, reinsurance and other related matters law.
2. Providing investment services exclusively to parent undertakings, subsidiaries or other subsidiaries of the parent.
3. Providing investment services in an incidental manner in the course of a professional activity regulated by legal or regulatory provisions or a code of ethics governing the profession which do not exclude the provision of that service.
4. Dealing on own account in financial instruments other than commodity derivatives or emission allowances or their derivatives, and that do not provide any other investment activities unless they are:
 - a. market makers, or
 - b. members of or participants in regulated markets or MTF, have direct electronic access to trading venues, and are not non-financial entities that execute transactions on trading venues, or
 - c. apply a high-frequency algorithmic trading technique, or
 - d. deal on own account when executing client orders.
5. Operators that need to comply with the establishment of a greenhouse gas emission