



CYPRUS RESPONDS TO CBI CRITICISM

Tasos Coucounis sheds light on the recent changes to the Cyprus Investment Programme

European citizenship by investment (CBI) schemes have come under scrutiny over the past few years. On 23 January 2019, the European Commission issued a report (the Report)¹ that concluded that such schemes pose risks both for the host states and the EU as a whole in light of security, money laundering and tax evasion concerns. It also announced the establishment of a group of experts to address and improve matters of governance, transparency and security of such schemes.

The European Parliament welcomed the Report,² observing that over 5,000 non-EU citizens to date had obtained citizenship of a Member State through CBI schemes. It raised concerns that the schemes threaten the integrity of the Common Reporting Standard and called on Member States to phase out such programmes.

CYPRUS' PROGRAMME

The Cypriot government, conscious of the criticism of the Cyprus Investment Programme (the Programme), has attempted over the last year to amend it. The changes have been brought about through three Council of Ministers' decisions, on 9 January and 21 May 2018 (the 2018 Amendments) and 13 February 2019 (the 2019 Amendment).

FINANCIAL CRITERIA

The Programme allows non-Cypriots to apply for Cypriot citizenship by exception provided that an investment of EUR2 million (to be retained for five years) is made by the applicant in either:

- Cypriot real estate through the acquisition or development of residential or commercial developments, or other infrastructure projects;
- businesses that have a tangible presence and substantial activity in Cyprus;
- alternative investment funds licensed and supervised by the Cyprus Securities and Exchange Commission; or

- a combination of all the above investments, provided the total investment is EUR2 million or more.

All applicants must also own a permanent immovable property in Cyprus with a minimum market value of EUR500,000 plus VAT.

The 2019 Amendment adds the requirement that applicants must make both a donation of at least EUR75,000 to the Research Promotion Foundation, a government agency responsible for supporting research and innovation in Cyprus, and a donation of the same to the Cyprus Land Development Corporation, a government body entrusted with the implementation of the government's housing policy providing affordable housing to low-income families. Donations exceeding these amounts are taken into account in calculating the EUR2 million investment criterion.

This new requirement would arguably reinforce the applicant's bonds and links with Cyprus, so addressing the Report's criticism of an apparent lack of 'bond of nationality' in CBI schemes.

TRANSPARENCY, GOVERNANCE AND SECURITY PROVISIONS

The 2018 Amendments included provisions regarding transparency, governance and security, such as:

- the requirement for applicants to submit a due-diligence report from an internationally accepted database,³ on top of a clean criminal record;
- the introduction of an annual approval quota of 700 applications and a six-month application process period;
- the establishment of the Committee of Supervision and Control for the Programme; and
- the introduction of a Code of Conduct and a Registry of Service Providers facilitating Programme applications.

The 2019 Amendment has gone a step further by eliminating applicants rejected

by other Member States' CBI schemes, and requiring that all applicants be in possession of a valid Schengen visa⁴ if one is required for their travel.⁵ The purpose of this is that the applicant in effect becomes subject to a preliminary security check by the Schengen Information System (SIS), which is widely used for EU security and border management.

As Cyprus is not part of the Schengen Area, nor yet connected to the SIS, this new development requires certain 'third-country' applicants to the Programme to follow a straightforward process and apply beforehand for such a visa to other Schengen countries.

Further, the 2019 Amendment authorises the Interior Minister to initiate a tender for the purchase of services in conducting enhanced due diligence on applicants. It also approves the preparation of an annual report on the implementation of the Programme that will contain the number of citizenships granted, the applicants' countries of nationality and the sector in which the investment has been made.

CONCLUSION

The amendments are steps in the right direction, and are aimed at ensuring Cyprus adheres to prevailing European standards while remaining an attractive option for relocation. Whether the new rules will allay the European Commission's concerns over the Programme remains to be seen.

¹ bit.ly/2lXzrdT ² bit.ly/2YITyLh ³ e.g. World-Check, LexisNexis-Diligence, Regulatory DataCorp, Inc. ⁴ A short-stay visa allowing travel for tourism or business purposes to any of the Schengen Area countries; for a list of these, see bit.ly/2W7bcjp ⁵ bit.ly/2RB7UPz



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