

Electronic Money & Payment Institutions

The regulatory framework perspective

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Cyprus has harmonized its legislation with the relevant EU directives and practices governing the operations of Payment Institutions (“PI”) and Electronic Money Institutions (“EMI”) and now offers a compelling set of valid arguments for being the EU’s hub of choice for establishing or re-domiciling PIs and EMIs.

The establishment and regulation of electronic money and payment services institutions in Cyprus is governed by the Law 81(I)/2012 (the “Electronic Money Law”) and Law 31(I)/2018 (the “Payment Institutions Law”) respectively, both as amended. Both the Electronic Money and Payment Institutions Laws are in alignment with the latest EU legislative developments, including the EU Directive 2015/2366 on payment services in the internal market (the “2nd Payment Services Directive”).

The transposed provisions of the 2nd Payment Services Directive within the respective Cyprus legislation broadens the scope of payment services regulation within the EU and introduces third party payment service providers (TPPs) within the scope of regulation for the first time. It also introduces changes to conduct of business requirements aimed at improving consumer protection and competition and changes to security and transparency requirements.



Cyprus at a glance

The establishment of a PI or an EMI in Cyprus seems to be a natural strategic decision mainly driven by the following key factors:

- EU member state compliant with EU laws and regulations.
- Eurozone member, making penetration in EU markets easier.
- Strong fundamentals for PI and EMI operations and a growing demand basis for such activities from many industry verticals active in Cyprus.
- Cost-effective setting up and on-going operational services.
- English is the language of Business.
- Business friendly and transparent regulatory system.
- Opportunities in the local corporate and institutional market.
- Convenient time zone for conducting 24 hour a day business.
- Access to an extensive network of double tax treaties allowing for tax efficient structuring.
- Favourable tax system. (e.g. no withholding tax on dividend distributions to foreign shareholders, 12.5% corporation tax with possibility to drop up to 2.5% thanks to Notional Interest Deduction (NID), tax incentives for non-domiciled tax residents etc.).
- Availability of a number of highly qualified professional service providers (e.g. accounting firms, legal firms, consultancy firms etc.).
- Favourable tax regime for Intellectual Property (IP) rights, under specific requirements.
- Efficient regulator Central Bank of Cyprus (CBC) which provides streamlined procedures, reduced bureaucracy and lower regulatory fees.
- Sophisticated infrastructure.

Expansion of your business in the European Union

Both PI and EMI, once established and duly licensed in Cyprus, may offer their services freely within the EU on a cross-border basis or by establishing branches through the so-called “EU passporting process”, without any further authorization from the CBC as they benefit from EU rules on freedom of provision of services. Any Cypriot PI or EMI wishing to expand its business in the EU either under the freedom of establishment or under the freedom to provide services, shall notify its intention to the Central Bank of Cyprus (CBC) providing the required information as stipulated by the relevant legislation.



Payment Institution

Payment services offered by a PI are listed below:

- Services enabling cash to be placed on a payment account as well as all the operations required for operating a payment account.
- Services enabling cash withdrawals from a payment account as well as all the operations required for operating a payment account.
- Execution of payment transactions, including transfers of funds on a payment account with the user's payment service provider or with another payment service provider:
 - (a) execution of direct debits, including one-off direct debits;
 - (b) execution of payment transactions through a payment card or a similar device;
 - (c) execution of credit transfers, including standing orders.
- Execution of payment transactions where the funds are covered by a credit line for a payment service user:
 - (a) execution of direct debits, including one-off direct debits;
 - (b) execution of payment transactions through a payment card or a similar device;
 - (c) execution of credit transfers, including standing orders.
- Issuing of payment instruments and/or acquiring of payment transactions.
- Money remittance.
- Payment initiation services.
- Account information services.

Electronic Money Institution

The EMI, is permitted, in addition to the provision of all the payment services listed above, to issue electronic money.

Electronic money is a monetary value represented by a claim on the issuer, which is:

- Electronically-including magnetically-stored (e.g. chargeable internet based account, magnetic card).
- Issued on receipt of funds for the purpose of making payment transactions (conversion of bank money into electronic money).
- Accepted by a natural or legal person other than the electronic money issuer.



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