



CENTRAL BANK OF CYPRUS

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To : All Offshore Enterprises and their Expatriate Personnel

TRANSLATION OF CIRCULAR EC51
(SECOND ISSUE) DATED 26 SEPTEMBER 1997

Local Disbursement Current (LDC) Accounts of Offshore Enterprises and their Expatriate Personnel

1. The reissue of this circular introduces certain changes in the operation of Local Disbursement Current (LDC) accounts of offshore enterprises and their expatriate personnel, so that Authorised Dealers (hereafter referred to as banks), will be able to provide a better and faster service to the account holders.

2. LDC account holders

Banks may open LDC accounts for :

- 2.1 offshore enterprises i.e. companies, branches or partnerships belonging exclusively to non-residents and registered in the Republic under a Central Bank permit for the purpose of deriving income from sources outside the Republic and which manage their overseas affairs from their self contained, fully fledged and fully staffed offices in Cyprus;
- 2.2 expatriate personnel i.e. employees of offshore enterprises who live and work in Cyprus under Temporary Residence and Employment (TRE) permits issued by the Ministry of Interior.

3. Objects of LDC accounts

LDC accounts are expressed in Cyprus Pounds and intended to enable:

- 3.1 offshore enterprises and their expatriate personnel to effect and record their current payments to Cypriot residents in respect of their administrative or living expenditure;

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3.2 banks to provide offshore enterprises and their expatriate personnel with the requisite certificates regarding their current administrative or living expenditure in Cyprus.

4. Credit of LDC accounts

LDC accounts should be credited with :

4.1 remittances from abroad as well as with amounts transferred from foreign currency and external Cyprus Pound accounts;

4.2 foreign or Cyprus Pound notes imported by the account holder and declared to the customs authorities on form D.(N.R.);

4.3 undeclared foreign notes up to the equivalent of CY£5.000, provided the account holder proves on the basis of his passport that he arrived in Cyprus within the last 10 days and persuades the bank that he imported the notes from abroad but failed to declare them to the customs authorities;

4.4 cheques issued by government departments or semi-government organisations in favour of the account holder, representing refunds of income tax, security deposits with public utilities such as E.A.C., CY.T.A., etc;

4.5 cheques issued by resident insurance companies for amounts of up to CY£1.000. The cheques should represent compensation to the account holder in respect of insurance contracts for medical treatment, car damage, property loss etc. The banks should ensure that the case is bona fide.

5. Debit of LDC accounts

LDC accounts should be debited with:

5.1 cash withdrawals in Cyprus Pounds;

5.2 cheques issued by offshore enterprises or their expatriate employees to Cypriot residents in respect of their current administrative or living expenditure.

6. Restrictions on the operation of LDC accounts

The following restrictions apply on the operation of LDC accounts:

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- 6.1 transfers between LDC accounts are prohibited;
- 6.2 LDC accounts shall not be debited for the purchase of immovable property, automobiles and shares quoted on the Cyprus Stock Exchange;
- 6.3 overdrafts of LDC accounts in the name of offshore enterprises are prohibited. However, overdrafts of LDC accounts in the name of expatriate employees are permitted but only for amounts up to CY£2.000 in accordance with Circular EC17. Banks may offer credit facilities to offshore enterprises in foreign exchange and in accordance with circular EC31.

General

- 7. The bank with which an LDC account is kept, may issue a certificate to the holder showing the total amount of current payments to Cypriot residents during a particular period. This total is calculated by adding up all debit entries of the LDC account during the said period. The certificate is required by the Central Bank in connection with an offshore enterprise's Confidential Annual Report or the renewal of an expatriate's TRE permit.
- 8. Upon winding up of the offshore enterprise or departure of its expatriate personnel, any residual balances in their LDC accounts are convertible into foreign exchange and transferable abroad on demand, without reference to the Central Bank.
- 9. For cases not covered by this Circular, banks may submit an application to the Central Bank by using form EC1000.
- 10. Circular EC51 dated 26 November 1985 and its supplement no.1 dated 27 June 1987 are hereby cancelled.

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CENTRAL BANK OF CYPRUS

ISSUE AND RENEWAL OF TEMPORARY RESIDENCE AND EMPLOYMENT (TRE) PERMITS

ENTRY VISAS

Any foreigner arriving in Cyprus must possess a valid national passport. Nationals of countries of the European Union and of the British Commonwealth (other than Pakistan and Bangladesh) as well as those of Bahrain, the Czech Republic, Hungary, Iceland, Japan, Kuwait, Liechtenstein, Lithuania, Norway, Oman, Poland, Qatar, Romania, the Russian Federation, San Marino, Saudi Arabia, Slovakia, South Africa, Switzerland, the United Arab Emirates, the United States of America and Yugoslavia, who are coming to Cyprus as visitors, do not require an entry visa. Visitors from all other countries are advised to obtain a visa in advance.

The validity of a visitor's visa usually ranges from one week to three months depending on the case. Executives of offshore enterprises which do not maintain a fully staffed and fully fledged office and, therefore, do not live and work on the island, may enter Cyprus on a visitor's visa, provided they are eligible for such a visa.

ELIGIBLE ENTERPRISES

In order to protect the good name and economic interests of Cyprus, it has been decided that offshore enterprises eligible to employ expatriates on the island, are limited to those which:

- belong to groups with transparent ownership and whose ultimate shareholders are approved by the Central Bank or to public corporations quoted on any recognised stock exchange;
- operate from their self-contained office: (a) located in suitable distinct premises, not part of a private residence or another office; (b) equipped with appropriate office and telecommunications facilities; (c) staffed with full time personnel and open during normal office hours;
- comply with the conditions of their Central Bank permit and prove, on the basis of their annual financial statements, that they are going concerns, financially sound and credit worthy.

EMPLOYEE CLASSIFICATION

Eligible offshore enterprises may employ expatriates in executive positions on the island. The maximum number of such executives is three, unless the Central Bank is persuaded that a greater number is justified. An expatriate who wishes to be employed in an executive position on the island, must:

- be at least 24 years old;
- have suitable qualifications;
- receive appropriate remuneration.

As from 1 July 1996, the minimum acceptable annual salary for newly appointed executives is CY£12.000. For those executives employed prior to this date and whose salary was less than CY£12.000, the new minimum has become applicable since 1 January 1997. This amount may be adjusted annually by the authorities according to fluctuations in the salaries index.

The term "executive" includes expatriates registered as directors or partners with the Registrar of Companies or general managers of subsidiaries and branches of publicly quoted overseas companies as well as department managers of offshore enterprises operating from Cyprus for at least two years in accordance with the conditions and requirements of the Central Bank of Cyprus. The term "non-executive", refers to expatriates who do not fall under the aforementioned four categories and who may be employed in managerial, professional, administrative, technical or clerical positions on the island.

Offshore enterprises are expected to recruit non-executive staff from within the island. They may employ expatriates in non-executive positions (in accordance with the procedure described further below), if comparable Cypriot personnel is not available. Offshore enterprises are advised not to commit themselves to employing an expatriate in a non-executive position in Cyprus before first securing his TRE permit from the Migration Officer.

Cyprus has a well-trained and versatile work force. The island ranks among the leading countries in the world in terms of the proportion of university graduates to the total population. Qualified staff with wide experience and fluency in English and other languages are available for employment at reasonable remuneration.

Most legal and accountancy firms are ready to assist offshore enterprises in securing and extending the TRE permits of their expatriate staff with minimum inconvenience.

ADMINISTRATIVE PROCEDURES

The Migration Officer, at the Ministry of Interior, is the authority responsible for the first issue and subsequent renewals of TRE permits granted to all expatriates employed by offshore enterprises in Cyprus. The Migration Officer acts in consultation with:

- the Service for Offshore Enterprises at the Central Bank of Cyprus regarding the first TRE permits granted to expatriate executives as well as all renewals of TRE permits granted to all expatriates, irrespective of their rank;
- the Labour Department at the Ministry of Labour and Social Insurance regarding the first TRE permits granted to expatriates employed in non-executive positions;
- the Divisional Aliens Section at District Police Headquarters regarding the first issue and renewal of TRE permits granted to expatriates employed in non-executive and, if the Migration Officer deems necessary, other positions.

The above mentioned authorities provide advice to the Migration Officer concerning matters falling within their sphere of competence. The Migration Officer takes into account their recommendations and replies to the applicants directly.

Under the Aliens and Immigration legislation, any TRE Permit:

- may be revoked by the Minister of Interior, acting in his capacity as Chief Immigration Officer, if he deems it to be in the public interest;
- is considered automatically cancelled, if the conditions under which it was granted cease to exist.

Offshore enterprises should inform the Central Bank, the Migration Officer and the Department of Customs as soon as any of their expatriate staff resign or are no longer in their employment.

FIRST PERMITS

A. Executive Staff

The application for an executive's first TRE permit is made to the Central Bank. The application form (obtainable from the enterprise's lawyer or accountant) must be accompanied by the following documents:

IN RESPECT OF THE ENTERPRISE:

- copy of its permit under the Exchange Control Law;
- list of its directors or partners, issued either by the enterprise's secretary or by the Registrar of Companies, showing the applicants' names with their addresses abroad;
- in the case of new offshore enterprises, duly stamped lease agreement for its office in Cyprus (if not available, it should be presented to the Central Bank within two months).

IN RESPECT OF THE EXPATRIATE

- contract or certificate of employment (stating annual salary and service duration) duly stamped;
- Forms M61 (application for temporary residence permit) and M64 (application for employment permit) in duplicate, fully completed and duly signed;
- copy of passport's data pages;
- cheque in favour of the Migration Officer with the prescribed fee of CY£10 for each applicant and member of his family (except children attending schools in Cyprus, confirmed by their registration certificates).

The Central Bank forwards the relevant documents to the Migration Officer with its recommendation. Within one month the Migration Officer normally mails to the expatriate executive his first TRE permit valid for two years, unless his case warrants further consideration.

On receipt of his first TRE permit, the expatriate and all members of his family possessing separate passports are required to appear in person at the Aliens Section of their District's Police Headquarters in order to be registered as expatriates and receive their Alien Registration Certificates (ARCs). The documents needed for such registration are each person's TRE permit, passport, three passport-size photographs and the prescribed fee of CY£10.

B. Non-Executive Staff

For the employment of an expatriate in a non-executive position, the offshore enterprise concerned (or its agent) is expected to obtain the special application form and the model employment contract from its District's Labour Office. The application form shall be mailed to the Labour Department, Ministry of Labour and Social Insurance, Nicosia along with the following documents:

IN RESPECT OF THE ENTERPRISE

- copy of its permit under the Exchange Control Law;
- profile describing the nature of its business and details of its office operations and staff requirements in Cyprus;
- list of its directors or partners, issued either by its secretary or the Registrar;
- list showing the names of its officers and staff with their position and nationality.

IN RESPECT OF THE EXPATRIATE

- detailed description of the duties to be performed by the employee;
- complete curriculum vitae and relevant documentary evidence regarding qualifications, experience and ability to fill the specific position;
- the model employment contract properly completed.

Within two weeks from receipt of the above documents, the Labour Department will inform the enterprise whether it is necessary to announce the vacancy in the local press. In such a case, an announcement will need to be placed in one English language and two Greek language newspapers, stating that applications should be addressed to the offshore enterprise with copy to the Labour Department, Nicosia.

Within one month from the application's receipt, the Labour Department will reply to the enterprise informing it whether its employment of the proposed expatriate is approved. The enterprise or its agent will then have to take the original model employment contract plus four copies, each of which should bear CY£1 stamp duty, along with the Labour Department's positive reply to the District Labour Office for approval and the District Collection Office for stamping.

Finally, the expatriate concerned must submit in person the following original documents, fully completed and duly signed, to the Aliens Section at District Police Headquarters:

- Labour Department's positive reply ;
- model employment contract, approved and stamped;
- Form M61(application for temporary residence permit if the expatriate is in Cyprus) or M58(application for entry visa if the expatriate is out of Cyprus);
- Form M64 (application for employment permit);
- the prescribed fee of CY£10 for the expatriate and each member of his family (except children attending school in Cyprus, confirmed by their registration certificates);
- each person's passport, three passport-size photographs and the prescribed fee of CY£10 to become registered as Aliens and receive their Aliens Registration Certificate (ARC).

Following a routine security check, the Aliens Police forwards its recommendation along with the other documents to the Migration Officer in Nicosia. The Migration Officer whose decision is final, will mail to the expatriate his first TRE permit valid for two years.

Every offshore enterprise which employs expatriates in Cyprus must display its name outside its business premises, in a conspicuous position in letters easily legible. The competent authority may wish to verify that the enterprise's office is: (a) located in suitable distinct premises, not part of a private residence or another office; (b) equipped with appropriate office and telecommunications facilities; (c) staffed with full time personnel and open during normal office hours.

LDC ACCOUNTS

Upon receipt of his first TRE permit the expatriate concerned is required to open a Local Disbursement Current (LDC) account denominated in Cyprus Pounds with an onshore bank and, if he so wishes, one or more convertible accounts with other banks in Cyprus or abroad. LDC accounts are intended for the expatriate's living expenditure on the island.

LDC accounts may only be credited with amounts transferred from convertible accounts held in Cyprus or abroad. Local currency is not acceptable for deposit in LDC accounts. They may be debited for cash withdrawals or payments to Cypriot residents in respect of the expatriate's current living expenses. LDC accounts should not be debited for purchases of real estate and duty free automobiles.

The convertible account(s), denominated in any traded currency (including external Cyprus Pounds) should be used for payments to all non-residents within or outside the island. Payments of any nature between non-residents (such as offshore

enterprises and their expatriate employees) must be effected in convertible currency and not from LDC accounts. Thus transfers between LDC accounts are not permitted. Upon departure of the expatriate any residual balance in the respective LDC account can be transferred to any convertible account either in Cyprus or abroad without reference to the Central Bank.

The onshore bank with which the LDC account is kept can, upon request, issue a certificate to the holder showing the total amount of his local expenditure met from foreign exchange during the elapsed period. This figure is arrived at by adding up all debit entries. The aforementioned certificate must accompany an expatriate's application to the Central Bank for renewal of his TRE permit.

SUBSEQUENT RENEWALS

After the initial two years, TRE permits may be renewed for additional three year periods provided that, during the elapsed period:

THE EXPATRIATE CONCERNED

- lived and worked in Cyprus most of the time;
- covered his living expenditure from his LDC account;

THE ENTERPRISE CONCERNED

- operated continuously from its self contained office: (a) located in suitable distinct premises, not part of a private residence or another office; (b) equipped with appropriate office and telecommunications facilities; (c) staffed with full time personnel and open during normal office hours.
- submitted to the Central Bank its Confidential Annual Report, audited financial statements, LDC account certificate and other details every year;
- was a going concern, financially sound and credit worthy.

Two months before the expiry of a TRE permit, the expatriate must apply to the Central Bank for a recommendation to renew it. The application form (obtainable from the enterprise's lawyer or accountant) must be accompanied by the following original documents:

IN RESPECT OF THE EXPATRIATE

- Form M61 in duplicate, fully completed and signed;
- Copy of the previous TRE permit;
- Copy of the applicant's and his family's passport data pages and Aliens Registration Certificates (ARCs);

- contract or certificate of employment (stating his annual salary and service duration) duly stamped;
- LDC account certificate showing his payments to residents during each of the elapsed years;
- Tax Clearance Certificate (Form IR25/1994) issued to the expatriate by his District's Income Tax Office;
- in the case of executive staff, cheque in favour of the Migration Officer with the prescribed fee of CY£10 for each applicant and member of his family (except children attending schools in Cyprus, confirmed by their registration certificates).

The Central Bank uses the documents in order to assess the financial performance of the expatriate's employer and the expatriate's own economic arrangements.

In the case of expatriates employed in executive positions, the Central Bank forwards its recommendation to the Migration Officer in Nicosia. Within one month, the Migration Officer will notify the expatriate concerned regarding the renewal of his TRE permit.

In the case of applicants employed in non-executive positions, the Central Bank forwards its recommendation together with certain documents to the expatriate concerned (or his agent), who must submit them to the Divisional Aliens Section, District Police Headquarters, along with a cheque issued to the order of the Migration Officer for the prescribed fee of CY£10 for each applicant and member of his family (except children attending schools in Cyprus, confirmed by their registration certificates). If there are no impediments, the Aliens Police will reply positively to the Migration Officer, who will then proceed to renew the applicant's TRE permit.

MINIMUM CRITERIA

The Government and the Central Bank, through the Permanent Consultative Committee on Offshore Enterprises, have set the following minimum criteria for the renewal of an expatriate's TRE permit for an additional three year period:

- (1) The expatriate's LDC account must show annual debits in excess of CY£6.000 for local payments (in addition to purchases of duty free cars and real estate);

- (2) The enterprise's LDC account must show annual debits in excess of CY£12.000 for local payments (in addition to purchases of duty-free cars and real estate);
- (3) The enterprise's annual turnover/operating revenue must exceed CY£60.000 unless the enterprise can demonstrate other commercial and economic activity to the Central Bank's satisfaction;
- (4) The expatriate must live and work in Cyprus most of the time. In the case of one-man enterprises, the expatriate's stay in Cyprus must exceed nine months per year.

The Central Bank is prepared to show flexibility regarding an expatriate's length of stay depending on his employer's local expenditure and financial substance or employment of Cypriot staff (as evidenced by social security and payroll taxes) or other expatriate staff on a full time basis.

If any one of the minimum criteria is not fulfilled, the Central Bank may use its discretion and accept compensating combinations of these criteria. For example, the Central Bank may recommend renewal of an expatriate's TRE permit for three years if:

- the sum of the expatriate's and the enterprise's local payments was slightly less than CY£18.000 but the enterprise's annual turnover/operating revenue far exceeded the minimum in (3) above while the enterprise was a going concern, financially sound and creditworthy; or
- the enterprise's annual turnover/operating revenue was less than CY£60.000 but the expatriate's and the enterprise's local payments far exceeded the minimum standards in (1) and (2) above; or
- criteria (1), (2) and (3) above were not fully met but during the elapsed period the enterprise was employing at least one Cypriot on a full-time basis for whom it was paying social security and payroll taxes.

A four member team, consisting of representatives of the Central Bank, the Migration Department, the Department of Customs and the Police Aliens Section, may visit, during normal working hours, offshore enterprises whose operations are in doubt in order to verify that they and their expatriate staff comply with the terms of their permits.

CHANGE OF EMPLOYER

Expatriates, who for any reason change employer, are treated by the Central Bank, the Labour Department and the Migration Officer as first time applicants. Thus, if finally approved, they will receive TRE permits valid for two years. In addition to the usual documents required for the first issue of TRE permits, an expatriate who changes employer must also submit:

- LDC account certificates showing his payments to residents during the elapsed years;
- Tax Clearance Certificate (Form IR25/1994) issued by his District's Income Tax Office;
- original of the TRE permit covering his previous employment;
- contracts with his previous and new employer, duly stamped;
- Form C6 certified by Customs Headquarters allowing the transfer of his duty-free benefits under his new employer.

SM/cc

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