Using the latest version of

'G20/OECD Principles of Corporate Governance':

A Critical Assessment of the

Cyprus Corporate Governance Framework and

Recommendations for its Improvement.

Master's Thesis for LL.M International Business Law

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Table of Contents

Abstract

This thesis will access on a theoretical and practical level, the extent in which Cyprus and companies listed in its Market are following the basic concepts of 'good' corporate governance. Using the latest revision of the 'G20/OECD Principles of Corporate Governance', the discussion begins with an illustration of the key elements of 'good' corporate governance. Based on the positions presented, the strengths and weaknesses of the framework will be discussed. On a more practical level, there will be an examination of the extent in with the provisions of the Corporate Governance framework of Cyprus are implemented. In the end, considering all the information illustrated, this thesis will provide a list of recommendations for the improvement of the key positions of the regime. This list aims to help Cyprus, as an International Business Centre; be in accordance with the 'good' and 'relevant' corporate governance practices. Bearing in mind the steady progress of the island to restructure its economy and regain investor confidence mainly by successfully rebuilding the financial institutions of the island; this thesis aims to motivate the regulators of the Republic of Cyprus to consider the recommendations mentioned to improve the corporate governance of the island and make it not only in accordance to the 'good' corporate governance principles but also 'relevant'.

Key Words: Cyprus, Corporate Governance, 'good' corporate governance practices, 'relevant' corporate governance practices

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Introduction

Historically, what has been considered important for the investors' protection by the company and the Capital Market were not only their economic needs but also the financial collapses and scandals, or the 'so-called bubbles'[1]. From the Mississippi Company to Enron, to Volkswagen's Emissions scandals, Samsung's 'Battery Recall' and Wells Fargo's Fake Accounts the 'greedy appetite for wealth'[2] and success motivates abuse of power and then legislators try to respond by usually overstretching their powers and introducing new regulations. Hence, it is not surprising that the global chronicle of 'Corporate Governance' is equally a storyline of crises and scandals, with special attention to the key elements of 'good' corporate governance practices. Indeed, there are numerous suggestions that these elements work together to contribute to the competitiveness of a corporation, facilitate corporate access to capital markets, and thus helps develop financial markets and spur economic growth.

Having said that, the Cadbury Report from the United Kingdom in 1992[3]; Sarbanes-Oxley Act of the United States in 2002[4] as well as the 'OECD's Principles of Corporate Governance' in 1999[5]; have been widely perceived as the first key contributors of the developments of Corporate Governance. The commonly used definition of the concept of Corporate Governance as 'the system which companies are directed and controlled'[6]; embraces topics such as the construction of the internal structure of the company as well as the relationship among the Board of Directors, Management, and shareholders. Inevitably, the link between these two is of vital importance, as through the establishment of a well-structured system within an organisation, the key players of every organisation, mentioned above can cooperate while performing their duties efficiently.

'Good corporate governance frameworks help firms and countries improve accountability, more efficiently use capital, and attract quality and long- term investors at lower costs'[7]

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[1] Hopt, Klaus J. "Modern company and capital market problems: Improving European corporate governance after Enron." Journal of Corporate Law Studies 3.2 (2003): 221-268.

[2] Gray, Kenneth R., Larry A. Frieder, and George W. Clark Jr. "Financial bubbles and business scandals in history." International Journal of Public Administration 30.8-9 (2007): 859-888.

[3] Cadbury, Adrian. "Cadbury report: The financial aspects of corporate governance." *Tech reprt, HMG, London* (1992).

[4] United States Code, Sarbanes-Oxley Act of 2002, PL 107-204, 116 Stat 745. Available at: https://www.sec.gov/about/laws/soa2002.pdf

[5] Organisation for Economic Co-operation and Development (1999). OECD principles of corporate governance. Paris: Organisation for Economic Co-operation and development, OECD. Available at: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=C/MIN(99)6&docLanguage=En

[6] Cadbury, A., 1992. *Report of the committee on the financial aspects of corporate governance* (Vol. 1). Gee. Available at: http://www.ecgi.org/codes/documents/cadbury.pdf

[7] Atacik, M.C. and Jarvis, M., 2006. Better corporate governance: More value for everyone. *World Bank Discussion Paper*, (2). Available at: http://siteresources.worldbank.org/CGCSRLP/Resources/paper_02.pdf

Based on the above statement, this thesis assesses on a theoretical and practical level, the extent in which Cyprus and companies listed in its Market are following the basic concepts of 'good' corporate governance. The base of this decision is the on-going efforts of Cyprus to restore the credibility of its main industries, especially its banks, and eventually further strengthen them by attracting new businesses and investors. In the end, having a Corporate Governance framework which is sufficiently in accordance with the principles of 'good' corporate governance should have a pioneer position within the steps of regulators in Cyprus. Considering all the above, this thesis will uphold the serious attempts of the OECD Principles 1999, 2004 and more recently 2015 to strengthen every aspect of corporate governance; and uses the principles of the latest version as an international benchmark.

To have a well-structured assessment and recommendations for the improvement of the corporate governance framework of Cyprus, this thesis will begin with an illustration of the key elements of 'good' corporate governance, as presented by the 'principle'. Based on that discussion, there will be a shift towards a critical examination of the extent in which those positions are followed within the corporate governance framework of Cyprus. In the end, considering all that, a list of recommendations for the improvement of the key positions of the regime will be available to enable Cyprus, as an International Business Centre; be in accordance with the 'good' and 'relevant' corporate governance practices.

A. 'Good' Corporate Governance Practices

A.1. Overview of the concept of 'good' Corporate Governance

The first country to be concerned with the matter 'corporate governance' as a concept and subsequently as a problematic area was the United States back in the 1970s. Jensen and Meckling 'apply the agency theory to the modern corporation and model the agency costs of outside enquiry'[8]; and an extensive theoretical and empirical research followed on the governance of U.S. corporations. In the early 1990s however, there was a shift and an increasing interest in regulating, investigating and eventually establishing good corporate governance practices not only in the United States but also in other major world economies and later in developed and emerging markets[9]. Indeed, there was a gradual appreciation that good corporate governance plays a vital role in the culture and business practices and is of national importance as well.

As a major feature in organizations, every Corporate Governance framework is responsible for preventing the inevitable problems at a macro and the micro level; because of the inevitable division of

[8] Denis, Diane K., and John J. McConnell. "International Corporate Governance." The Journal of Financial and Quantitative Analysis, vol. 38, no. 1, 2003, pp. 1–36. JSTOR, www.jstor.org/stable/4126762.

[9] Ibid.

ownership and control. In return, the long-standing challenges have been: finding the right way to motivate directors in decision-making; holding them accountable and protecting governments from being deeply harmed by failures of proper corporate governance practices. In this way, Corporate Governance frameworks around the world adopted a set of basic ideas (see Figure 1) based on four main values: fairness, transparency, accountability, and responsibility. These positions influenced to a great extent the efforts of numerous sources and especially the Organisation for Economic Co-Operation and Development (OECD) to promote 'good' Corporate Governance practices.

Notably, like all the efforts to improve corporate governance practices, what constituted the main moving force for OECD; was the situation due to the financial crises, corporate scandals, and failures that spread from East Asia to Russia[10]. The serious concerns about the stability of the international financial market because of that situation fuelled the need to direct the focus of governments, regulators, companies, investors and the public on the fatal weaknesses in the established corporate governance systems[11]. Ultimately, a set of standards and guidelines for good corporate governance practices which could be applicable to all countries was introduced in 1999, widely known as 'The OECD Principles of Corporate Governance'[12] ('principles'). As discussed below, the working process following which the 'principles' result, justify the global attitude to perceive them as an international benchmark.

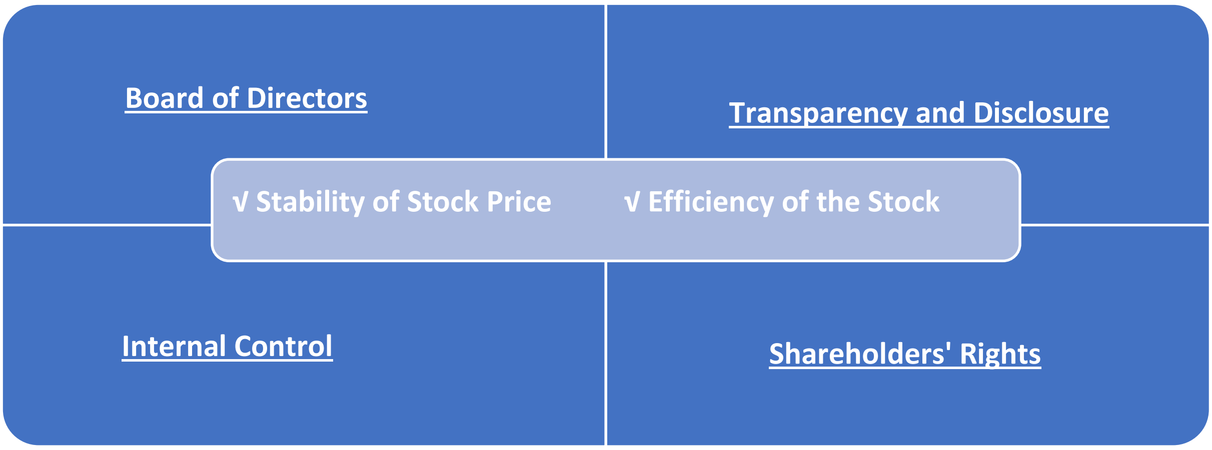

Figure 1. The key principles of good corporate governance.

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[10] Gregory, H.J., 2000. The globalization of corporate governance. Global Counsel, 5, pp.52-65. Available at: http://people.stern.nyu.edu/adamodar/pdfiles/articles/globalisation_of_corporate_governance.pdf

[11] Jesover, F. and Kirkpatrick, G., 2005. The revised OECD principles of corporate governance and their relevance to non-OECD countries. Corporate Governance: An International Review, 13(2), pp.127-136. Available at: http://www.oecd.org/corporate/ca/corporategovernanceprinciples/33977036.pdf

[12] Organisation for Economic Co-operation and Development (1999). OECD principles of corporate governance. Paris: Organisation for Economic Co-operation and development, OECD. Available at: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=C/MIN(99)6&docLanguage=En

Linking to the above position, what signaled the effectiveness and hence wide acceptance of the 'principles', is the working process following which they result. Briefly, the data collected are analysed through group discussions of the suggested policy and finally decision-making and implementation takes place. In the end, the 'mutual examination by governments, multilateral surveillance and peer pressure to conform or reform'[13] are the cornerstone of the OECD Principle's effectiveness. Additionally, their non-authoritarian character preserves their relevance in the different legal, economic and social frameworks that receive their guidance. In the end, since the above process has been characterized as extremely effective[14], the final results provide practical guidance to policymakers, regulators and the market participants for OECD and non-OECD governments.

From the original text in 1999 to the revision in 2004[15] and finally the most recent update in 2015[16]; the values for 'a well-functioning corporate governance system'[17] or 'good' corporate governance, are reserved. For this reason, this thesis will use the latest version as an International benchmark, to assess the Corporate Framework of Cyprus. Essentially, the latest version, titled 'G20/OECD Principles of Corporate Governance' ('principles'); was the result of an 'inclusive' review by the G20 countries and the OECD member countries after a year-long review process. Alongside several amendments which will be considered below; 'principles' has maintained the focus of previous versions on issues of high levels of transparency, accountability, board oversight and respect towards shareholders and stakeholders.

A.2. The chapters of 'The OECD Principles of Corporate Governance'

Chapter I: Ensuring the basis for an effective corporate governance framework

To start with, the first chapter discussed how an effective corporate governance framework can be ensured while reflecting the post-2008 crisis alarms regarding weak supervision and enforcement. The suggestion to adopt a mixed structure of legislation; regulation; self-regulation; voluntary standards and the adaptation of a 'comply or explain' principle as soft law measurements are the first position to

[13] Ibid.

[14] Ngum, P.C., Using the OECD Principle of Corporate Governance as an International Benchmark: A Comparative Analysis of Corporate Governance Legislation in the UK, US and South Africa. US and South Africa"(published thesis 2009). Available at: file:///C:/Users/u873719.CAMPUS/Downloads/Using_the_OECD_Principles_of_Corporate_G%20(2).pdf

[15] Organisation for Economic Co-operation and Development (2004). OECD principles of corporate governance. Paris: OECD. Available at: https://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf

[16] G20/OECD Principles of Corporate Governance. (2015). 1st ed. Paris: OECD Publishing.

[17] Ibid.

be considered. Notably, such an action will allow countries to embrace the different types of companies and organisations within the same country. Moreover, 'principles' highlight the importance of cooperation among the key players of a country's corporate governance framework and the quality of supervision and enforcement in all the activities. This statement is addressed and discussed in more detail, throughout the analysis A final point made in this version is that the stock market regulations and rules should be considered by regulators, and hence complete the picture of an effective corporate governance framework. In the end, the aim of an effective corporate governance is the improvement of the general economic performance of the companies involved and the safeguarding of a transparent and well-functioning market.

Chapter II: The rights and equitable treatments of shareholders and key ownership functions

The focus of the second chapter is on the rights and equitable treatment of all shareholders, controlling, minority and foreign, as well as the key ownership functions. The content of this chapter begins with a basic illustration of the main shareholder rights which among other include the right to information promptly and regularly, participate in shareholder meetings in key company decisions and finally their right to share in the profits of the corporation. Importantly, there is the considerable focus on efficient disclosure and transparency for positions which in return ensure a relationship between the outside world, especially shareholders and the company. As part of the new additions to this version, there is a focus on essential transparency and disclosure of the ownership structure, abusive related party transactions as well as disclosure of multiple directorships. Finally, two points which are arguably getting a lot of attention in respect of minority shareholders' rights and are discussed in this chapter is the 'say on pay' rule and 'cumulative voting'. Considering the above, the focus for the remaining of this section is the environment of shareholders' rights and their importance for the future of companies.

To start with, Monks and Minow discuss a 'tripod' of key players in corporate governance[18]: executives, the board of directors and finally shareholders which are given certain rights as owners of a corporation. Voting, inspecting, dividend entitlement, rights to sue are the main rights of shareholders which are protected by law but need to be further honoured and protected by companies as part of a general 'good' corporate governance practices. Notably, observations in this area from La Porta et al., show that 'strong investor protection is associated with effective corporate governance, as reflected in valuable and broad financial markets, dispersed ownership of shares, and efficient allocation of capital across firms'[19]. This statement identifies the three main points in which investor protection is considered

[18] Monks, R. and Minow, N. (2011). Corporate Governance. 5th ed. Chichester, West Sussex: John Wiley & Sons, p.xviii.

[19] La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R., 2000. Investor protection and corporate governance. Journal of financial economics, 58(1), pp.3-27. Available at: http://ac.els-cdn.com/S0304405X00000659/1-s2.0-S0304405X00000659-main.pdf?_tid=ad5e7aae-

to matter: the ownership of firms, the development of financial markets, and finally the allocation of real resources.

For the first point made above, there are numerous studies which support the importance of investors' protection in countries such as Germany[20], Italy[21], and seven Organization for Economic Cooperation and Development counties[22], based on the corporate ownership patterns they follow. Furthermore, for the second point, the main idea is that by protecting investors, financial markets are encouraged to develop. Simply, by protecting investors from expropriation, they are willing to pay more for securities which are eventually more gladly issued by entrepreneurs. Finally, real economy is equally affected by investor protection as studies in the area concluded that 'stock markers in more developed countries incorporate firm-specific information better, helping to allocate investment more effectively'[23]. Hence, in the end of the cycle, by protecting investors, growth of productivity and output can be benefited.

All in all, with shareholder protection being associated at an empirical level with higher valuation of corporate assets; sufficient protection of minority shareholders' rights is an equally important area to consider. Initially, adopting the statement of the 'principles', the 'say on pay' rule and the different versions that can take, 'play an important role in conveying the strength and tone of shareholder sentiment to the board'[24]. Arguably, it 'goes to the heart of corporate governance and emerges as a power struggle between shareholder and director rights over the control of a corporation.'[25] In the end, Bean in his article highlights that 'say on pay' allows better communication between directors, management, and shareowners on a regular basis; 'enhances the accountability of the board' and 'exhibits a process of transparency.'[26] Similarly, among the main regulatory protection mechanisms currently in practice for the protection of minority shareholders, 'cumulative voting' is perceived by the 'principles' as one of the many common ways to effectively protect minority shareholders which in the end aim to improve the market credibility[27].

469b-11e7-a2b9-00000aacb35e&acdnat=1496302190_a868fbf30540ad136a278e88266d8c0c

[20] Edwards, J., Fischer, K., 1994. Banks, Finance and Investment in West Germany Since 1970. Cambridge University Press, Cambridge, UK.; Gorton, G., Schmid, F., 2000. Universal banking and the performance of German "rms. Journal of Financial Economics 58, 29.

[21] Barca, F., 1995. On corporate governance in Italy: issues, facts, and agency. Unpublished working paper. Bank of Italy, Rome.

[22] European Corporate Governance Network (ECGN). 1997. The Separation of Ownership and Control: A Survey of 7 European Countries Preliminary Report to the European Commission. Volumes 1}4. Brussels, European Corporate Governance Network.

[23] Morck, R., Yeung, B., Yu, W., 2000. The information content of stock markets: why do emerging markets have synchronous price movements? Journal of Financial Economics 58, 215}260.

[24] G20/OECD Principles of Corporate Governance. (2015). 1st ed. Paris: OECD Publishing. p.23

[25] McCafferty, J. (2008, March 18). The "say on pay" debate heats up. Available at: https://www.bloomberg.com/news/articles/2008-03-18/the-say-on-pay-debate-heats-upbusinessweek-business-news-stock-market-and-financial-advice

[26] Bean, L., 2009. The great "say on pay" debate. *Journal of Corporate Accounting & Finance*, *20*(3), pp.13-17. Available at: http://onlinelibrary.wiley.com/doi/10.1002/jcaf.20479/epdf

[27] G20/OECD Principles of Corporate Governance. (2015). 1st ed. Paris: OECD Publishing. p.29

Chapter III: Institutional Investors, stock markets, and other intermediaries

The discussion within the third chapter of the 'principles' is the role of the different players in the investment chain and a reluctance to treat institutional investors as a uniform group of people. There is a draw of the need of sound economic incentives, especially with the latter acting in a fiduciary capacity; to exercise their voting and other governance rights. Moreover, to avoid an ineffective and box-ticking approach, 'principles' suggest that shareholders' engagement must be part of the institution's business model and investment strategy. Similarly, there is a discussion about the need to disclose and minimize conflicts of interest that may compromise the integrity of proxy advisors, analysts, brokers, rating agencies and others that provide analysis and advice that is relevant to investors. Finally, as part of the new additions, there is a focus on the cross-border listings and the importance of fair and effective price discovery in stock markets.

Chapter IV: The role of stakeholders in corporate governance

The fourth chapter of the 'principles' focuses on the importance of recognising the role and rights of stakeholders that exist either by law or through mutual agreements. Indeed, it is for a 'long-term interest of the corporation to foster wealth-creation among stakeholders' which should include employee participation and sufficient and regular availability to information to meet their duties. Moving on, the comparison of this version with the previous ones allows us to observe minor changes in the form of annotations. Firstly, there is a reference to 'international conventions' which acknowledge workers' right to information, consultation and negotiation. Furthermore, part 'E' of this chapter mentions the option for many countries to present before the National Contact Point, cases of violation of the OECD Guidelines for Multinational Enterprises.

Chapter V: Disclosure & Transparency

The chapter on the 'principles' regarding 'Transparency and Disclosure' begins by identifying the key areas of disclosure: the financial and operating results, company objectives, major share ownership, remuneration, related party transactions, risk factors, board members etc. Notably, there are limited changes evidenced through annotations including the position of limiting the reporting burden on the businesses. Furthermore, requirements to report 'non-financial' information are embraced and evidenced, as well as references to social issues, human rights, political donations and country-by-country reporting. Importantly, the disclosure of beneficial ownership is upgraded to be included in the actual text instead of being part of the annotation and a position is made regarding bargaining coverage and devices for employee representation. Finally, while the issues of board and executive remuneration remains unchanged in this version; there is a worth-noting suggestion of disclosing the 'rationale' for cumulating CEO and chair positions.

Following the illustration of the above, this thesis appraises the pioneer position of Transparency and Disclosure within the basic values that need to be secured by organizations. Essentially, in all the definitions of Corporate Governance, Transparency and Disclosure is treated as being one of the main pillars of Corporate Governance quality[28]. This, in return, lead to a huge amount of studies in both financial and corporate governance studies, which in return acknowledge 'disclosure and dissemination can have a positive efficiency effect on obtaining capital or enhance the firm's reputation'[29]. Finally, while disclosure is recognized as a legal obligation for organisations; transparency is an 'ethical obligation'[30]; both of which constitute a bridge to communicate the goals and strategies of the company, to the outside world.

Adding to the above, there is no doubt that financial reporting contains vital financial information for investors, creditors and other market players, which need to have transparent information to do a right evaluation of company's condition. Indeed, empirical studies that have taken place, highlighted the relationship of disclosure on firm performance[31] and concluded that good corporate governance practices increase firm value[32]. A final consideration here is the study of Hermalin et al, in which they draw that 'better price performance is associated with a firm that has indicators of high disclosure quality, having outside ownership concentration higher and firm which are focused

28 Desoky, A.M. and Mousa, G.A., 2012. Corporate governance practices: Transparency and disclosure-evidence from the Egyptian exchange. Journal of Accounting, Finance and Economics, 2(1), pp.49-72.
29 Fung, B., 2014. The demand and need for transparency and disclosure in corporate governance. Universal Journal of Management, 2(2), pp.72-80.; Bushman, R., Piotroski, J., and Smith, A. (2004). What determines corporate transparency? Journal of Accounting Research, 42 (2), p. 207 – 252; Yadong, L. (2005). Corporate governance and accountability in multinational enterprises: Concepts and agenda, Journal of International Management, 11, p. 1-18; Patel, S., Balic, A. and Bwakira, L. (2002). Measuring transparency and disclosure at firm-level in emerging markets, Emerging Markets Review, 3, p. 325 – 327;] Pope, P. (2003). Discussion of disclosure practices, enforcement of accounting standards and analysts' forecast accuracy: An international study, Journal of Accounting Research, 41(2), p. 273-283; Uren, D. (2003). The transparent corporation: Managing demands for disclosure, Crow's Nest, NSW, Australia, Allen and Unwin; Bennis, W., Goleman, D., and O'Toole, J. (2008). Transparency: How leaders create a culture of candor, San Francisco, Jossey-Bass; Fombrum, C. and Shanley, M. (1990). What's in the Name? Reputation building and corporate strategy, Academy of Management Review, 33 (2), p. 233-258; Fombrum, C. (1996). Reputation: Realizing value from the corporate image, Boston, MA, Harvard Business School Press; Fombrum, C., Gardberg, N. and Barn, M. (2000). Opportunity platforms and safety nets: Corporate citizenship and reputational risk, Business and Society Review, 105 (1), p. 85-106
30 Lee, S. (2011). The Difference in Transparency and Disclosure from Allan Sloan of Fortune. [Blog] Maguire Ethics Center Blog. Available at: http://blog.smu.edu/maguireethics/2011/11/01/the-difference-in-transparency-and-disclosure-from-allan-sloan-of-fortune/ [Accessed 7 May 2017].

31 Patel, S. A., Balic, A., & Bwakira, L. (2002). Measuring transparency and disclosure at firm level in emerging markets. Emerging Markets Review, 3, 325-337; Akhtaruddin. (2005). Corporate mandatory disclosure practices in Bangladesh. International Journal of Accounting, 40(4), 399-422.; Attiya, Javid, & Iqbal. (2012). Ownership Concentration, Corporate Governance and Firm Performance: Evidence from Pakistan. Pakistan Institute of Development Economics; Barako, Hancock, P., & Izan, H. Y. (2006a). Relationship between corporate governance attributes and voluntary disclosures in annual reports: The Kenyan experience. Financial Reporting Regulation and Governance, 5(1), 1-25; Ben Ali, C. (2008). Disclosure quality and corporate governance: Evidence from the French stock market. Paper presented at the The British Accounting Association Annual Conference, Blackpool, UK.; Hossain, & Reaz, M. (2007). Determinants and characteristics of voluntary disclosure Indian banking companies. Corporate Social Responsibility and Environmental Management, 14(5), 274-288.; Attiya, Javid, & Iqbal. (2012). Ownership Concentration, Corporate Governance and Firm Performance: Evidence from Pakistan. Pakistan Institute of Development Economics
32 Henry, D., 2008. Corporate governance structure and the valuation of Australian firms: is there value in ticking the boxes?. Journal of Business Finance & Accounting, 35(7-8), pp.912-942. Availabe at: https://www.researchgate.net/publication/23522193_Corporate_Governance_Structure_and_the_Valuation_of_Australian_Firms_Is_There_Value_in_Ticking_the_Boxes ; Renders, A., Gaeremynck, A. and Sercu, P., 2010. Corporate-governance ratings and company performance: a cross-European study. Corporate Governance: An International Review, 18(2), pp.87-106. Available at: https://www.researchgate.net/publication/228239738_Corporate- Governance_Ratings_and_Company_Performance_A_Cross-European_Study

rather than shows diverse.'[33]

Chapter VI: The responsibilities of the board

The concept of the board of directors has attracted an enormous amount of studies as the necessity to have the right people to hold the seats in the boardroom and hence run the run the firm into success, is unquestionable. The two fundamental and contemporary questions in this area concern the role and make-up of the Board of Directors which in return justify its recognition as the leadership body of the company[34] and 'one of many resources available to companies to use in pursuing their objectives'[35]. In the end, understanding the role of the board is extremely important for finding the right people to be members of the Board and subsequently for both explaining the corporate behavior and finally setting the right regulatory policy towards corporate activities[36]. Indeed, the final chapter of the 'Principles' draws the picture of a framework regarding the structure and functioning of the board of directors, that can apply to either one-tier or two-tier board structure.

The approach of the 'principles' in this area is to initially illustrate the key responsibilities of the directors: mainly to review of corporate strategy, do the selection and compensation management, oversee major corporate acquisitions and divestitures, and finally ensure the integrity of the corporation's accounting and financial reporting systems. Several important changes are evidenced, however, including reference to aggressive tax planning in the section on board ethics, to claw back provisions and social issues, human rights, environment and taxation on board management and compliance policy. Moreover, it is very important to mention the position that the Chairman and CEO must be held by different people; is now treated as s 'a good practice' instead of merely a thought of being one. Finally, two new principles are introduced, regarding the evaluation of Board's effectiveness and board-level employee representatives, both of which can contribute to a complete and effective board functioning.

<u>Key Roles of the Board of Directors</u>

The initial position illustrated by the 'principles' which will be discussed next is the arguably the most controversial role of the Board of Directors with many writers treating it as a position of common sense[37]. Indeed, their task to manage the affairs of their company, as this group is generally

33 Hermalin, B.E. and Weisbach, M.S., 2012. Information disclosure and corporate governance. The Journal of Finance, 67(1), pp.195-233.
34 Zhao, Y., 2011. Corporate Governance and Directors' Independence. Kluwer Law International. p.2
35Demb, A., Chouet, D., Lossius, T. and Neubauer, F., 1989. Defining the role of the board. Long Range Planning, 22(1), pp.61-68.
36 Adams, R.B., Hermalin, B.E. and Weisbach, M.S., 2010. The role of boards of directors in corporate governance: A conceptual framework and survey. Journal of Economic Literature, 48(1), pp.58-107.
37 See Janet Dine, Company Law 5 edn (New York: Palgrave Macmillan, 2005), 152-153; Brian R. Cheffins, Company Law: Theory, Structure, and Operation (Oxford: Clarendon Press, 1997), 39, 95; John H. Farrar & Brenda Hannigan, Farrar's Company Law 4th edn (London: Butterworths, 1998), 304, 329; J. E. Parkinson, Corporate Power and Responsibility: Issues in the Theory of Company Law (Oxford: Clarendon Press, 1993), 56.

perceived as the 'mind' of the company, is questionable. By considering the definition of 'management' however, this implies an enduring control of company's affairs which inevitably is not entirely possible, since meetings with all the members of a company do not occur very often. on this manner, Zhao suggests the adaptation of the term 'leadership' which in return can 'counteract continually expanding the managerial power and reduce the opportunity for management to arbitrarily abuse their power.'[38] Adding to the above, while numerous Corporate Governance norms are being challenged; 'the changing attitudes towards the board of directors' are being welcomed within the market[39]. Indeed, the reality is that 'company boards have increasingly attempted in certain situations to infuse its own will into the policy-making and operation of the company'[40], embracing their advisory role.

Another a role which is often forgotten by publications in the area is the relational role of the board as a 'bridge' between the company and the real world. Essentially, the maintenance of a relationship between company, directors, shareholders, and management as well as outside factors is included in the commonly accepted responsibilities of the Board of Directors; and it should be treated as one of their functions. Essentially by having a smooth and open communication and relationship with the outside world; it is very likely that long-term business success will be achieved[41]. Considering the above illustration of the roles of directors; it must be noted that those roles are not exclusive as 'boards are expected to perform multiple roles, with the effective performance of these roles requiring different types of directors'[42], which will be able to contribute to an effective board structure for the business.

At this point, it is very important to consider the position of the 'principles' in acknowledging that one of the most significant roles of the Board of Directors, is the overseeing of the internal control system of the company. This in return, can contribute to the reduction of information asymmetry and improve a firm's reputation for transparent and credible reporting. For this reason, this part of our discussion will give considerable attention to that area.

Internal Control

The definition of 'Internal Control' that is provided by 'The Committee of Sponsoring Organisations of the Treadway Commission' (COSO); embraces this position. Simply, it is 'a process, affected by entity's board of directors, management, and other personnel, design to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operation, Reliability of financial reporting, Compliance with applicable laws and

38 Zhao, Y., 2011. Corporate Governance and Directors' Independence. Kluwer Law International. p.80

39 Ibid. p.81

40 Millstein, I.M., 1992. The evolution of the certifying board. Bus. Law., 48, p.1485.

41 Zhao, Y., 2011. Corporate Governance and Directors' Independence. Kluwer Law International. p.113

42 Dallas, L.L. (2003). The Multiple Roles of Corporate Boards of Directors. The San Diego law review, 40(3), p.781. Available at: http://heinonline.org/HOL/Page?handle=hein.journals/sanlr40&g_sent=1&collection=journals&id=791

regulations.'[43] Based on that, there are five components within an 'effective' internal control (see Figure 2) and a clear and direct relationship with corporate law and 'internal control'. Simply, 'Board' is responsible to provide governance, guidance and oversight, 'audit committee' must monitor the general control atmosphere, 'management' has to oversighting the whole 'system' and finally 'internal and external auditor' are responsible to evaluate and control respectively the effectiveness of the 'system' over financial reporting.

Figure 2: Coso Internal Control – Integrated Framework Principles

(source: https://www.coso.org/Documents/COSO-ICIF-11x17-Cube-Graphic.pdf)

Interestingly, after attracting considerable focus on its role within every company, 'audit' has been recognised as a monitoring device and an essential part of the corporate governance. Notably, Wallace[44] has highlighted the role of an audit by using three hypotheses: monitoring, information, and insurance. For the first hypothesis, the position is that 'audit reduces the agent's chances to withhold material information from the shareholders'[45] as well as 'restricting the superior information position of management'[46]. Moreover, for the second hypothesis, 'audit' has been acknowledged by investors as a route to improve the quality of financial information[47] as well as upgrading the quality of the financial

[43] Coso.org. (2017). Welcome to COSO. [online] Available at: https://www.coso.org/Pages/default.aspx [Accessed 6 Jun. 2017]; Cruz, S. (2016). What Are the Five Components of the COSO Framework?. [Blog] KnowledgeLeader. Available at: http://info.knowledgeleader.com/bid/161685/what-are-the-five-components-of-the-coso-framework [Accessed 11 May 2017].

[44] Wallace, W. (1980). The economic role of the audit in free and regulated markets. The Touche Ross and Co. Aid to Education Program. Reprinted in Auditing Monographs (New York Macmillan Publishing Co., 1985. Available at: http://publish.wm.edu/cgi/viewcontent.cgi?article=1000&context=oer

[45] Beaver, W.H., 1968. Market prices, financial ratios, and the prediction of failure. *Journal of accounting research*, pp.179-192.

[46] Ittonen, K., 2010. A theoretical examination of the role of auditing and the relevance of audit reports. *University of Vaasa, Finland*. Available at: http://www.uva.fi/materiaali/pdf/isbn_978-952-476-298-4.pdf

[47] Wallace, W. (1987). The economic role of the audit in free and regulated markets: a review. Research in Accounting Regulation 1, 7–34.; Wallace, W. (2004). The economic role of the audit in free and regulated markets: a look back and a look forward. Research in Accounting Regulation 17, 267–298.

data used by managers in decision-making[48]. Finally, the third hypothesis concerns the sharing liability for defective financial statements and is worth mentioning here the indication that 'the going concern audit report information is assessed less negatively when the environment perceives the auditor to provide insurance'[49].

Both, Cheung & Qiang[50], as well as Stewart & Kent, [51] concluded in their studies that the internal audit function improved the good corporate governance within the organisation. Similarly, Yasin et al.[52] found that the internal audit function had a significant role in supporting the good governance practices. This finding was also similar with Wallace and Kreutzfeldt[53]; Carey et al.[54]; Gramling et al.[55] and Carcello et al.[56] ; and Coram and Moroney[57]. Finally, Virginia et al[58] concluded that internal audit had a role to prevent the corruptions and support the good governance practices. Essentially, the long-standing emphasis on independence and expertise of Board members discussed above; has led to a need for issuing internal control reports by management auditors which in return contributes to an increase and strengthening of the monitoring role of the auditor over the management[59].

The numerous international accounting scandals accompanied by the financial crisis, resulted in deeming the independency of auditors as vital part in the regulators' discussions. Indeed, the discussions 'to clarify the role of the statutory auditors, to strengthen their independence and to enhance supervision'[60]; have resulted in the most important position, that of mandatory audit rotation. The main

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48 ibid. 59, page 8

49 O'Reilly, D., R. Leitch & B. Tuttle (2006). An experimental test of the interaction of the insurance and information-signaling hypothesis in auditing. Contemporary Accounting Research 23:1, 267–289.

50 Cheung, T. C., & Qiang, C. (2002). Internal audit at Guangdong nuclear power joint venture Company limited. Managerial Auditing Journal, 12(4), 219-232

51 Stewart, J. G., & Kent, P. (2006). The relation between external audit fees, audit committee characteristics and internal audit. Bond University electronic publication. Retrived from http://epublication.bond.edu.au/business_pubs/14

52 Yasin, N., Ghaneem, M.J. and Rustom, L., 2011. *The role of internal audit function in corporate governance: An empirical study on commercial banks in Lebanon*. Working Paper of Beirut Arab University). Retrieved from http://www. google. com. Pdf. Available at: https://pdfs.semanticscholar.org/1d31/eee50041f0f33794c059bf73654befe656fa.pdf

53 Wallace, W., & Kreutzfeldt, R. (1991). Distinctive characteristics of entities with an internal audit department and the association of the quality of such departments with errors. Contemporary Accounting Research, 7(2), 485-512.

54 Carey, P., Tanewski, G., & Simnett, R. (2000). Voluntary demand for internal and external auditing by family businesses. Auditing: A Journal of Practice and Theory, 19, 37-51.

55 Gramling, A. A., Maletta, M. J., Schneider, A., & Church, B. K. (2004). The role of the internal audit function in corporate governance: A synthesis of the extant internal auditing literature and directions for future research. Journal of Accounting Literature, 23, 194-244.

56 Carcello, J., Hermanson, D., & Raghunandan, K. (2005). Changes in internal auditing during the time of the major US accounting scandals. International Journal of Auditing, 9, 117-127.

57 Coram, P., & Moroney, R. (2007). The importance of internal audit in fraud detection (Monash University Working Paper). Available at: file:///C:/Users/Admin/Downloads/The_Importance_of_Internal_Audit_in_Fraud_Detectio.pdf

58 Virginia, A., Eleni, K., Dimitrios, P., & Chrysoula, X. (2009). The role of financial accounting information in strengthening corporate control mechanisms to alleviate corporate corruption (University Macedonia Working Paper). Available at: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.518.8642&rep=rep1&type=pdf

59 Ittonen, K., 2010. A theoretical examination of the role of auditing and the relevance of audit reports. University of Vaasa, Finland. Available at: http://www.uva.fi/materiaali/pdf/isbn_978-952-476-298-4.pdf

60 European Commission (2014). European Parliament backs Commission proposals on new rules to improve the quality o statutory audit. [online] Available at: http://europa.eu/rapid/press-release_STATEMENT-14-104_en.htm [Accessed 4 May 2017].

argument is that sporadic breaks of audit engagement aim to avoid long relationships between the auditor and the client which in return can harm the quality of the services provided by the first. Such action refers to the audit firm, in which case the entire audit firm has to rotate, or to the audit partner, in which only the leading partner has to change periodically. The adaptation of such a rule carries extensive costs, however, as well as other issues which may affect the quality of the audit services provided: organisational disruptions, start-up costs, loss of client-specific knowledge and client's ability to negotiate on audit fee[61]. What is extremely important to consider here however, is the unclear empirical evidence as to the benefits resulting are greater than the costs that such action carries with it, regarding both the partner and the audit firm.

Structure of the Board of Directors

Building upon the above discussion, what deemed to be extremely important within this area of corporate governance is the focus 'to regain a balance in power sharing and ensure that any individual does not automatically control the board'[62]. Adopting the position of the 'principles', part of an effective corporate governance, is the establishment of a board with 'a sufficient number of non-executive board members' which, in return cam balance the interests of the board members. On a similar basis, positions such as separation of the role of CEO and the Chairman (sometimes referred as 'CEO duality'), support the position the latter or lead director with the introduction of a 'company secretary' and finally the evaluation of the effectiveness of the board; are upraised and accepted as able to increase the levels of independence within the board.

To start with, following the high-profile scandals and failures of huge companies such as Baring Bank, Enron, and WordCom; there was an introduction to the concepts of 'non-executive' or 'outside' directors, whose 'independence' is widely considered as their most important characteristic a director should have. Notably, a position highlighted within the Higgs Review[63] and embraced by Zhao; is that 'an effective board, which should embrace an idea of power equilibrium, may normally require a balanced composition of executive and non-executive directors'[64]. This, in return, means an 'independent board'. Simply, by adopting this position, non-executive or outside directors can be 'less influenced by the management's philosophy and retain their objective judgment'[65] and eventually allow the Board of Directors be the 'leadership organ' of every company.

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[61] Cameran, Mara and Negri, Giulia and Pettinicchio, Angela Kate, The Audit Mandatory Rotation Rule: The State of the Art (April 20, 2015). Journal of Financial Perspectives, Forthcoming. Available at SSRN: https://ssrn.com/abstract=2596492
62 Zhao, Y., 2011. Corporate Governance and Directors' Independence. Kluwer Law International. p.2
[63] Higgs, D., 2003. *Review of the role and effectiveness of non-executive directors* (pp. 1-120). Stationery Office. Available at: http://www.ecgi.org/codes/documents/higgsreport.pdf

[64] Zhao, Y., 2011. *Corporate Governance and Directors' Independence*. Kluwer Law International. p.3
[65] Ibid.

Extensive empirical studies in the area, however, introduces rejections to the position that Board of Directors is more independent as the proportion of their outsider directors' increases[66]; and highlight that there is no relation between the proportion of outsider directors and various performance measures[67]. More specifically, this position is presented following results of no link between the proportion of outsider directors and Tobin's Q[68] as well return on assets, assets turnover and stock returns[69]. In opposition to these statements, however, there are studies finding market rewards for appointing outside directors[70]; the relation between cost of debt and board independence[71] or even encouraging the link between the proportion of outsider directors and the stock-market reaction to poison pill adoptions[72]. This position is subsequently allowing us to conclude that 'independence' is not the only topic which must be given considerable attention when considering the responsibilities of the board.

Initially, empirical evidence on the relationship between CEO duality and firm presentation are mixed. Notably, there are conclusions that when the position of the chairman and the CEO is held by the same person, there is less conflict between management and the board which in return allows for better performance[73]. The different ways companies work, however, do not allow writers chose one over the other leadership structures. Adopting the position of the 'principles' however, there is no doubt that the separation of these two powerful roles will allow for a more balanced, accountable and independent board[74]; especially within one-tier board systems. Furthermore, the position of a 'company secretary' is introduced by the 'principles' as able to support the board for the exercise of their responsibilities. Notably, this position no longer seems as a 'mere servant'; but instead 'as a bridge for information, communication, advice, and arbitration'[75] between the key players of an organisation.

[66] John, K. and Senbet, L.W., 1998. Corporate governance and board effectiveness. *Journal of Banking & Finance*, *22*(4), pp.371-403. Available at: http://s3.amazonaws.com/academia.edu.documents/30926881/board-survey.pdf?AWSAccessKeyId=AKIAIWOWYYGZ2Y53UL3A&Expires=1496741585&Signature=iMym%2BcM2606HfGfPDtn02fMAJt4%3D&response-content-disposition=inline%3B%20filename%3DCorporate_governance_and_board_effective.pdf

[67] Fosberg, R.H., 1989. Outside directors and managerial monitoring. *Akron Business and Economic Review*, *20*(2), p.24.

[68] Hermalin, B.E. and Weisbach, M.S., 2003. Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature (Digest Summary). *Economic Policy Review*, *9*(17-26).

[69] Bhagat, S. and Black, B., 2001. The non-correlation between board independence and long-term firm performance. *J. CorP. l.*, *27*, p.231.

[70] Baysinger, B.D. and Butler, H.N., 1985. Corporate governance and the board of directors: Performance effects of changes in board composition. *Journal of Law, Economics, & Organization*, *1*(1), pp.101-124.; Rosenstein, S. and Wyatt, J.G., 1990. Outside directors, board independence, and shareholder wealth. *Journal of financial economics*, *26*(2), pp.175-191.

[71] Anderson, R.C., Mansi, S.A. and Reeb, D.M., 2004. Board characteristics, accounting report integrity, and the cost of debt. *Journal of accounting and economics*, *37*(3), pp.315-342.

[72] Brickley, J.A., Coles, J.L. and Terry, R.L., 1994. Outside directors and the adoption of poison pills. *Journal of financial Economics*, *35*(3), pp.371-390. Available at: https://www.researchgate.net/profile/Jeffrey_Coles/publication/4978181_Outside_Directors_and_Adoption_of_Poison_Pills/links/00b7d51e4e9748adc4000000/Outside-Directors-and-Adoption-of-Poison-Pills.pdf

73 Brickley, J.A., Coles, J.L. and Jarrell, G., 1997. Leadership structure: Separating the CEO and chairman of the board. Journal of corporate Finance, 3(3), pp.189-220. Available at: http://www.wiwi.uni-bonn.de/kraehmer/Lehre/SeminarSS09/Papiere/Brickley_et_al_Leadership_structure.pdf

74 see page 57 of the 'principles'

75 IFC's Corporate Governance Group (2016). THE CORPORATE SECRETARY: THE GOVERNANCE PROFESSIONAL. [online]

Finally, an area which unfortunately receives the least attention in empirical studies is the importance of evaluating the board's performance and its management. On this manner, Van de Berghe and Levrau, highlight the importance of formal evaluation at an annual level, as a way to improve their working and reduce 'concerns and expectations of inside and outside directors'[76]

Considering all the above, although there is no perfect recipe for a corporate governance framework, this chapter aimed to provide an illustration for a better understanding as to what is considered 'good' corporate governance practices. The positions followed by the 'principles' were discussed in line with empirical studies and literature to draw the accepted practices of 'good' corporate governance. This allows a better understanding of the positions and assessment of the corporate governance framework of Cyprus. In the end, an 'independent' Board of Directors is having a crucial role regarding the internal control system of an organisation; whereas and the fair provision of shareholders' rights are closely related to the required spirit of transparency and disclosure from the organisation. These are the key elements of 'good' corporate governance, which work together, in an effort to 'curtail managerial misconduct and increase shareholder value'[77] and subsequently improve firm's performance and value.

B. The Corporate Governance framework of Cyprus

B.1. The Legal and Business Environment in Cyprus

Cyprus has been recognised as an International Business Centre which, besides its size, has proven to have a dynamic, flexible and resilient economy after a difficult financial bail-out in 2013. Notably, the EU and European Monetary Union membership of the island since 2004; the strategic geographic location as a bridge between Europe, Asia, the Middle East and Africa; the broad range of quality financial and business services (legal, tax, accounting and investment); the highly qualified professionals and sophisticated infrastructure and low set up and operating costs are among the reasons Cyprus is an attractive investor and business destination. Having a small and adaptable free-market economy, the island is basically based on family-owned companies and banks. Essentially, although

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Washington, DC: International Finance Corporation. Available at: https://www.ifc.org/wps/wcm/connect/2c2a9f57-3e3d-43b2-be9f-beaed1d47fff/CG_CoSec_June_2016.pdf?MOD=AJPERES [Accessed 9 May 2017].

[76]Van den Berghe, L.A. and Levrau, A., 2004. Evaluating boards of directors: what constitutes a good corporate board?. *Corporate Governance: an international review*, *12*(4), pp.461-478. Available at: http://onlinelibrary.wiley.com/doi/10.1111/j.1467-8683.2004.00387.x/epdf

[77] McCahery, J.A. and Vermeulen, E.P., 2014. Six components of corporate governance that cannot be ignored. *European Company and Financial Law Review*, *11*(2), pp.160-95. Available at: https://poseidon01.ssrn.com/delivery.php?ID=223117004126125091064068119095008018056013034051087067098002118113091066068015003006012058017121015012035003000081103118122116039069054051084082083113103033058011088122009122101064121119086092117079114090113087018072008083106106117018097081&EXT=pdf

tourism has a long-standing and strong position as the driving force of islands' economy, the business and financial services account for a significant part of its economic output[78]. Therefore, the adaptation of a well-structured and efficient corporate governance framework was of vital importance.

With numerous studies highlighting the importance of corporate governance for developing countries[79], to attract foreign investment and boost their economy; the island was heavily influenced by the International Corporate Governance developments to structure its Corporate Governance framework. Plainly, Cyprus decided to follow a similar approach as the Anglo-Saxon model of corporate governance when it was experiencing its 'booming' moment as a developing economy during the 1990s. Interestingly, while this approach was heavily contributed to the long historical and legal bonds between the island and the United Kingdom; a 'mixed legal system' was gradually adopted and is currently in place. This has been an effort to adopt or at least show commitment to quality and commonly accepted standards of 'good' corporate governance. The 'mixed legal system' for corporations' operations in Cyprus (see Figure 3) is compromised by 'soft law' and the latest version of the 'Cyprus Corporate Governance Code' ('code'). The latter is treated as the main corporate governance instrument and is relevant to both private and public companies operating in Cyprus.

The core provision in the area is the Cyprus Companies' Law, Cha 113, which is almost mirroring the United Kingdom's Companies Act 1948[80], without following the latest amendments, however. On this manner, it is apparent that there is no complete financial services law for the complete regulation of business investment, comparable to the UK Financial Services and Markets Act[81]; but in practice, Cyprus' courts appear to follow to a great extent the UK case law. Moving on, the provisions

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[78] Country Profile (2016). Cyprus Country Report 2016. [online] Country Profile. Available at: http://www.cyprusprofile.com/documents/uploads/publications/Cyprus_Country_Report_2016.pdf [Accessed 18 May 2017]. Page 12.

[79] See Hussain, S. H. and Mallin, C. (2002) Corporate Governance in Bahrain, Corporate Governance: An International Review, 10, 197–210.; Mertzanis, H. V. (2001) Principles of Corporate Governance in Greece, Corporate Governance: An International Review, 9, 89–100.; Tsipouri, L. and Xanthakis, M. (2004) Can Corporate Governance be Rated? Ideas based on the Greek experience, Corporate Governance: An International Review, 12, 16–28.; Apreda, R. (2001) Corporate Governance in Argentina: the outcome of economic freedom (1991–2000), Corporate Governance: An International Review, 9, 298–310.; Ararat, M. and Ugur, M. (2003) Corporate Governance in Turkey: an overview and some policy recommendations, Corporate Governance: An International Review, 3, 158–175.; Kula, V. (2005) The Impact of the Roles, Structure and Process of Boards on Firm Performance: evidence from Turkey, Corporate Governance: An International Review, 13, 265–276.; Alves, C. and Mendes, V. (2004) Corporate Governance Policy and Company Performance: the Portuguese case, Corporate Governance: An International Review, 12, 290–301.

[80] Krambia-Kapardis, M. and Psaros, J., 2006. The implementation of corporate governance principles in an emerging economy: A critique of the situation in Cyprus. Corporate Governance: An International Review, 14(2), pp.126-139. Available at: https://www.researchgate.net/profile/Jim_Psaros/publication/4989134_The_Implementation_of_Corporate_Governance_Principles_in_an_Emerging_Economy_A_Critique_of_the_Situation_in_Cyprus/links/552d27600cf29b22c9c4b94f.pdf

[81] Ibid.

of a Cyprus company's memorandum and articles of association is governed by the Companies' Law which in return contains a model or regulations which can be adopted in whole or in part by both public and private companies. Regarding the fiduciary duties of directors, duties to act in good faith and for the benefit of the company, there are Common Law principles in place which apply. Finally, responsible for the registration, compliance and winding up of companies is the Department of the Registrar of Companies and Official Receiver (DRCOR) and the approvals for listing on the CSE are granted by the Cyprus Securities and Exchange Commission.

The 'mixed legal system' for corporations operating in Cyprus.[82]
The Companies Law, Chapter 113 of the Laws of Cyprus[83]
The Securities and Cyprus Stock Exchange Laws, as amended
Relevant Regulations, Rules, and Decisions of the Securities and Cyprus Stock Exchange Laws
The Cyprus Corporate Governance Code ('code') - (4th Edition)[84]
The transparency Requirements Law, Law 190(I)/2007
The Investment Services and Activities and Regulated Markets Law, 144(I)/2007
The Investment Services and Activities and Regulated Markets Law, 144(I)/2007.
European Corporate Governance Directives and Regulations

Figure 3: The 'mixed legal system' for corporations operating in Cyprus.

Remarkably, the initial and most important player during the efforts to launch good Corporate Governance practices in Cyprus was the establishment of the *Cyprus Stock Exchange* as a legal entity during the 1990s. Currently, is operating as a Regulated Market and a Market in the form of Multilateral Trading Facility (the 'Emerging Companies Market'). It has the form of a public corporate body, under

[82]See: Cse.com.cy. (2017). The Cyprus Stock Exchange Law and the Regulations and Regulatory Decisions issued by virtue of the Law. [online] Available at: http://www.cse.com.cy/en-GB/legal-framework/current-legislation/basic-law/ [Accessed 8 Apr. 2017].

[83] THE COMPANIES LAW. (2012). NICOSIA, Cyprus: Office of the Law Commissioner N. Available at: http://www.olc.gov.cy/olc/olc.nsf/all/E1EAEB38A6DB4505C2257A70002A0BB9/$file/The%20Companies%20Law,%20Cap%20113.pdf?openelement

[84]Cyprus Stock Exchange (2014). Corporate Governance Code (4th Edition). Corporate Governance Editions. [online] Nicosia, Cyprus: Cyprus Stock Exchange. Available at: http://www.cse.com.cy/en-GB/regulated-market/listing/corporate-governance/%CE%95%CE%BA%CE%B4%CE%BF%CF%83%CE%B5%CE%B9%CF%82-%CE%9A%CF%89%CE%B4%CE%B9%CE%BA%CE%B1-%CE%95%CF%84%CE%B1%CE%B9%CF%81%CE%B9%CE%BA%CE%B7%CF%82-%CE%94%CE%B9%CE%B1%CE%BA%CF%85%CE%B2%CE%B5%CF%81%CE%BD%CE%B7%CF%83%CE%B7%CF%82/%CE%95%CE%BA%CE%B4%CE%BF%CF%83%CE%B5%CE%B9%CF%82-%CE%9A%CF%89%CE%B4%CE%B9%CE%BA%CE%B1-%CE%95%CF%84%CE%B1%CE%B9%CF%81%CE%B9%CE%BA%CE%B7%CF%82-%CE%94%CE%B9%CE%B1%CE%BA%CF%85%CE%B2%CE%B5%CF%81%CE%BD%CE%B7%CF%83%CE%B7%CF%82/1741/ [Accessed 6 March. 2017].

the Cyprus Securities and Stock Exchange Laws and Regulations and its governing bodies are the Council of the Cyprus Stock Exchange (CSE) and the Cyprus Securities and Exchange Commission (CySEC). In addition to its supervisory authority for the operation of the stock exchange, 'CSE' has absolute power over the management and administration of its assets and as mentioned above; it has the responsibility for the establishment and management of a Central Depository and Central Registry where listed and unlisted securities that the issuer wishes to maintain can be found there. On the other hand, the CySEC is responsible for the supervision of the operations of the 'CSE'.

However, the lax controls, the inadequate stock exchange control system and the absence of documented principles or rules allowed for abuse[85] and lead to the collapse of the Cyprus Stock soon after its establishment, in 2000. Although the collapse did not have the size of Enron or WorldCom, it caused hundreds of investors losing their savings and subsequently lowered the confidence over the island's economy during the beginning of the 21st Century. This was a catastrophic disaster for Cyprus who put its economic future over raising foreign capital and hence was heavily depended on investments. Unsurprisingly, however, the policymakers waited for the collapse to act and realize that they needed to take to restructure the landscape of corporate governance in Cyprus. Subsequently, the Cyprus Stock Exchange decided to establish the first version of the Cyprus Corporate Code which contains legal principles with non-binding effect in 2002 and later amend it in 2011, 2012 and more recently in 2014.

Interestingly, although the economy of the island was based on the operation of Banks, basic corporate governance elements were not seriously considered for their account. The situation changed, however, with the issuing of the Directive on a 'Framework of Principles of Operation and Criteria of Assessment of Banks' Organisational Structure, Internal Governance and Internal Control Systems'[86], by the Central Bank of Cyprus in 2006. Further amendments that took place in 2009[87], 2010[88] and

[85] Ibid.

[86] Directive on A Framework of Principles of Operation and Criteria of Assessment of Banks' Organisational Structure, Internal Governance and Internal Control Systems of 2006 (published, in the Greek language, in Part I of the Third Annex of the Official Gazette of the Republic on the 8th December 2006, with number 4154 (Κ.Δ.Π. 460/2006))

[87] The (Amending) Directive on a Framework of Principles of Operation and Criteria of Assessment of Banks' Organisational Structure, Internal Governance and Internal Control Systems of 2009 was published, in the Greek language, in Part I of the Third Annex of the Official Gazette of the Republic on the 16th October 2009, with number 4391 (Κ.Δ.Π. 348/2009). Unofficial Translation Available at: http://www.centralbank.gov.cy/media/pdf/EN_AMEND_DIRECTIVE_INT_CONTROLS_OCT2009.pdf

[88] The (Amending) Directive on a Framework of Principles of Operation and Criteria of Assessment of Banks' Organisational Structure, Internal Governance and Internal Control Systems of 2010, was published in the Greek language, in Part I of the Third Annex of the Official Gazette of the Republic on the 11th June 2010, with number 4433 (Κ.Δ.Π. 253/2010). The said amendment adds annex 4 to the Directives which prescribes the basic principles and internal control procedures for the management of compliance risk. Unofficial Translation

2012[89]. The efforts filled the gap of the corporate governance framework for the banking system of the island, which arguably had contributed to the Cyprus' banking crisis[90]. The main areas covered in the latest version of the Directive: Internal Control System, Basic Principles and Criteria of Assessment of an Internal Control System at a group and non-group level, Best Internal Governance Principles, Fitness and Probity of Persons to be Appointed on the Board of Directors of a Bank, The Role of the Chairman; the Non-Executive; the Non-Executive and Independent, Units Responsible for the Administration of the Internal Control System, Submission of Reports to the Central Bank of Cyprus. Finally, the scope of the application of the directive is applicable to all banks and their overseas branches, which are incorporating in Cyprus for a strong internal governance structure.

Considering all the above, for the purposes of this thesis, our main focus will be the 4th Edition of the Cyprus Corporate Governance Code ('code') which includes a set of legal principles. The legal principles included are only obligatory for companies listed on the Main Market and partially mandatory for companies listed on the Parallel Market. Generally, the focus has been on: 'the enhancement of the supervisory role of the Board of Directors within the listed companies, the protection of minority shareholders, the adaptation of transparent and prompt provision of information, as well as safeguarding adequate independence from the Board of Directors during the decision-making'[91].

B.2. The Cyprus Corporate Governance Code (4th edition)

To start with, it has been evidenced that the latest version of the 'Code' goes a step forward and acknowledges the possible empowerment of the proposed recommendations by the 'current developments of Cypriot business practices and the international developments, as well'[92]. Bearing in mind that and before illustrating and assessing the key elements of the Cyprus Corporate Governance Code; the following introductory points must be considered:

(A) All listed companies must include a report about the Corporate Governance in their Annual Report stating their compliance or not with the 'Code', the extent of this compliance and the

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Available at: http://www.centralbank.gov.cy/media/pdf/EN_Am_Dir_Annex4_compliance_internal_control_systems.pdf

[89]The (Amending) Directive on a Framework of Principles of Operation and Criteria of Assessment of Banks' Organisational Structure, Internal Governance and Internal Control Systems of 2012, was published in the Greek language, in Part I of the Third Annex of the Official Gazette of the Republic on the 20th January 2012, with number 4543 (Κ.Δ.Π. 13/2012).Unofficial Translation Available at: http://www.centralbank.gov.cy/media/pdf/EN__unofficial_consolidation_framework_of_principles_2006_to_2012.pdf

[90]Mondaq.com. (2017). The Absence Of Corporate Governance In The Banking Sector And Its Consequences - Finance and Banking - Cyprus. [online] Available at: http://www.mondaq.com/cyprus/x/277890/Financial+Services/The+Absence+Of+Corporate+Governance+In+The+Banking+Sector+And+Its+Consequences [Accessed 6 Jun. 2017].

[91] see Introduction of the 'code'

[92] Ibid.

reasons for non-compliance; the total amount terms of reference and the activities of the proposed Committees (Nomination Committee, Remuneration Committee, Audit Committee and Risk Management Committee and any other committee appropriate according to the Board of Director's considerations).

(B) All listed companies (except companies within the non-regulated market of the CSE) must illustrate an analysis of the total amount of remuneration for the members of the Board of Directors to be paid.

(C) Any other Code by another supervisory Authority such as the Central Bank, the Registrar of Insurance Companies etc. which may be applied, must be followed by all the listed Companies.

B.2.i. Board of Directors

The main legal instrument in the area, the Companies Law, discuss for a one-tier board structure within which directors will be responsible for the administrative, executive and managerial functions of their organisation. Furthermore, they owe a duty to act in good faith, for the benefit of the company and not for personal interest, in accordance with the laws of Cyprus, any relevant European Law provision and the company's memorandum and articles of association. Moreover, the advice and services of the company's secretary must be accessible to the directors, regarding the insurance of correct board procedures being followed and applied. Furthermore, the 'code' mentions the mandatory establishment of several board committees, such as the nominations committees, internal audit committee, and remuneration committee. Having said that, the remaining of this part illustrates the main provisions of the 'code' within this area.

The first session of the CCGC states the general principle that *'[e]very listed Company should be headed by an effective Board of Directors, which should lead and control the company'*[93] and continues to analyse the suggested structure and function. Briefly, the meetings must take place on a regular basis, at least 6 times a year[94]; and cover issues that are included in the 'a formal schedule of matters specifically reserved for its decision'[95], as decided exclusively by the Board of Directors. Furthermore, the 'effective Board of Directors' *'should include a balance of Independent Non-Executive Directors and remaining Directors, such that no Individual Director or small group of Directors can dominate the Board's decision-making'*[96]. Primarily, 'the roles of the Chairman and Chief Executive Officer should not be exercised by the same individual and there should be *'a sufficient number of Non-Executive Directors […] with sufficient abilities, knowledge and experience [which]*

[93] Provision A.1 of the 'code'
[94] Provision A.1.1 of the 'code'
[95] Provision A.1.2 of the 'code'
[96] Provision A.2 of the 'code'

should comprise not less than one third of the Board of Directors'[97]. Finally, they should be identified in the Annual Report as Independent, alongside the Chairman and the Chief Executive Officer[98].

The final three provisions complete the picture of the suggested 'effective Board of Directors'. Firstly, the supply of information is suggested to take place *'in a timely manner with valid information in a form and of a quality appropriate to enable it to discharge its duties'*[99]**.** Moreover, *'[t]here should be a formal and transparent procedure [following which] [t]the Board of Directors [will] consist of competent and suitable individuals'*[100]. The procedure of appointment and necessary suggestions lies in the hands of a Nomination Committee, for *'a suitable and competent person [by considering] apart from his/her knowledge and experience, his/her honesty and integrity.'*[101] Lastly, the majority of this committee *'should be Non-Executive Directors and its Chairman should be either the Chairman of the Board of Directors (if he is non-Executive) or a Non-Executive Director'*[102], all of which shall be identified in the Annual Report. Finally, regarding the re-election; *'[a]ll Directors should be resigned at regular intervals and at least every three years [and] they can submit themselves for re-election.'*[103]

B.2.ii. Directors' Remuneration

The second main provision of the CCGC states that *'[c]ompanies should establish a formal and transparent procedure for developing a policy on Executive Director's remuneration and for fixing the remuneration packages of individual Directors [which should not] be involved in deciding his/her remuneration'*[104]. For that purpose, a Remuneration Committee must be established, comprised of mostly *'non-Executive Directors who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent and unbiased judgment'*[105].

The remaining of the core provisions state that the Remuneration Committee should be responsible for 'the executive Directors' context and level of remuneration and to determine on their behalf specific packages […] including pension rights and any compensation payments'. Generally, they *'shall […] obtain information on market standards for remuneration systems, ensure that this consultant is not also giving advice to the human resources department or the Executive or Managing Directors of the Company'*[106]. Additionally, a regular review is recommended to take place on 'the

[97] Provision A.2.1 of the 'code'
[98] Provision A.2.4 of the 'code'
[99] Provision A.3 of the 'code'
[100] Provision A.4 of the 'code'
[101] Provision A.4.2 of the 'code'
[102] Provision A.4.1 of the 'code'
[103] Provision A.5 of the 'code'
[104] Provision B.1 of the 'code'
[105] Provision B.1.2 of the 'code'
[106] Provision B.1.7 of the 'code'

remuneration policy […] including the policy regarding remuneration based on shares and its application'[107] and 'the Chairman and Chief Executive Officer [should have the chance] to express their views [on] the proposals […] [and] access to professional advice inside and outside the Company'[108]. Adding to the above section the main principle regarding the 'Level and Make-Up of Remuneration', is that it *'[…] should be sufficient to attract and retain the Directors needed to run the Company successfully […] recommended [to] be structured so as to link rewards to corporate and individual performance'*[109].

B.2.iii. Accountability and Transparency

Generally, Cyprus embraces the 'principle of publicity' by which any person interested can ask for a search on the company by the Company Registrar but either way, information in relation to companies in Cyprus are publicly available. This allows for better transparency and builds a relationship of trust between the companies and the outside world. On this manner, the fact that the 'code' is based on the 'comply or explain' rule that follows the European approach; invites more flexible and effective market-led regulation and most importantly promotes transparency. Essentially, directors of the companies are responsible for ensuring that the financial statements represent the true picture of the company; and if they fail to do so is possible to be found guilty of a criminal offense. Similarly, the provisions of the 'code' are in accordance with the legislation and regulations; making clear the responsibility of the board to provide a detailed and balanced assessment of the company's position and prospects. Finally, there is a requirement for companies to disclose information which is able to influence investor's assessment of the prospects of the company. Bearing in mind the above, the following illustration of the main provisions of this section is available below.

The third part of the CCGC recommends the submission of *'[…] a balanced, detailed and understandable assessment of the Company's position and prospects'*[110] for proper financial reporting. Accordingly, this behavior must be followed to *'[…] all public reports, reports to regulators, as well as to information required to be presented by statutory requirements'*[111] and the intention to perform in this way for the next twelve months must be stated in the Annual Report on Corporate Governance[112]. Finally, as a general principle, the Board of Directors *'should establish specific arrangements for considering how they should apply financial reporting, corporate governance and internal control and for maintaining an appropriate relationship with the Company's auditors'*[113]. For that purpose, an Audit

[107] Provision B.1.6 of the 'code'
[108] Provision B.1.5 of the 'code'
[109] Provision B.2 of the 'code'
[110] Provision C.1 of the 'code'
[111] Provision C.1.1 of the 'code'
[112] Provision C.1.2 of the 'code'
[113] Provision C.3 of the 'code'

Committee is recommended to be established as well as a Risk Management Committee for companies within the Main Market, the Shipping Companies Market, and the Large Project Market[114].

B.2.iv. Relationship with Shareholders

The 'code' makes clear that equal treatment of all shareholders must be the starting point of the practice of corporate governance, whether there is a minority, controlling or foreign. Generally, the main right of the shareholders: voting in general meetings, receiving a notice to and participate in general meetings. Hence, although shareholders are unable to force their will and make directors change their position; they can make decisions at the general meetings by passing resolutions. On this manner, each company's memorandum and articles of association include the rights of the shareholders, among which the companies law has a superior level of validity. Notably, there is special position in the 'code' that the board should have a director or a managing director to act as a liaison between the shareholders and the company, regarding the information that should be provided to shareholders.

Building upon the above spirit within this area of corporate governance, there are two principles in this section worth mentioning. The first suggests that, *'Constructive use of the Annual General Meeting in order to communicate with investors and encourage their participation therein'*[115]. This suggestion should be achieved by proposing each separate issue as a different resolution at the Annual General Meeting, one of which should be regarding the Report and the Accounts[116]. Additionally, the counting all proxy votes and an indication of the number of each that corresponds to each decision, as well as the number of votes for and against that decisions[117] can contribute in achieving the above recommendation. Concerning the participation of the Shareholders Provisions is further suggested that the Chairman of the Board of Directors *'should make sure that the Presidents of the Audit, Remuneration and Appointment Committees are available to answer questions at the Annual General Meeting'*[118] and that *'the agenda and the overall organisation of the General Meetings do not eliminate substantial dialogue and the decision-making procedure'*[119], especially during Extraordinary General Meetings.

Considering all the above, many aspects of the corporate governance framework in Cyprus have been established and followed for a long time, which in return are extremely important. However, although the above is not an extensive illustration of the framework; it allows us to have an idea of the

[114] Provision C.3.9 of the 'code'
[115] Provision D.1 of the 'code'
[116] Provision D.2 of the 'code'
[117] Provision D.1.1 of the 'code'
[118] Provision D.1.3 of the 'code'
[119] Provision D.1.4 of the 'code'

environment and subsequently understand the most important positions of the regulators. While at a first glance, the above illustration seems to in general accordance with the 'good' corporate governance practices described in the previous chapter of this thesis; the next chapter will provide a more comprehensive assessment of the Corporate Governance framework of Cyprus.

C. Assessment of Cyprus' Corporate Governance Framework

To have a complete assessment of the Corporate Governance system of Cyprus, this part of the paper will initially provide an illustration of the strengths and weaknesses of the Corporate Governance framework. Furthermore, for a complete assessment, there will be an illustration and a brief discussion on the degree in which the companies listed on the Main Market of the Cyprus Stock Exchange comply with the most important requirements and/or recommendations.

C.1. Strengths & Weaknesses

C.1.i. Board of Directors

The companies in Cyprus are generally organised under a one-tier board system which has been generally perceived to create fewer information asymmetries and relieve administrative hurdles that may negatively affect the decision-making process of non-executive directors within a two-tier board.[120] Having said that, the provisions of regarding the structure and functioning of the Board of Directors within the Corporate Governance framework of Cyprus, further embrace numerous point of good practice. To start with, the 'comply or explain' requirement is a first positive indication of an effective corporate governance framework, as suggested by the 'principles'. Arguably, it allows for greater flexibility and adjustment of the board composition to the character of each company listed in the CSE. Furthermore, the establishment of Remuneration, Nomination and Audit Committees as well as the requirement to disclose the activities of each committee mentioned; is a strong feature that it should not be ignored.

Moving on, the most important recommendation of the CSEC on this matter is that the role of the chair of the Board of Directors and CEO must be exercised by a different person. Notably, this position is consistent with studies upraising the view that collective titles can lead CEOs having more influence over corporate decision-making[121] and the corporate performance[122], despite important

120 Hooghiemstra, R. and Van Manen, J., 2004. The Independence Paradox:(im) possibilities facing non-executive directors in The Netherlands. Corporate Governance: an international review, 12(3), pp.314-324.; Jungmann, C., 2006. The effectiveness of corporate governance in one-tier and two-tier board systems–Evidence from the UK and Germany–. European Company and Financial Law Review, 3(4), pp.426-474.
121 Brickley, J.A., Coles, J.L. and Jarrell, G., 1997. Leadership structure: Separating the CEO and chairman of the board. Journal of corporate Finance, 3(3), pp.189-220.
122 Adams, R.B., Almeida, H. and Ferreira, D., 2005. Powerful CEOs and their impact on corporate performance. Review of financial studies, 18(4), pp.1403-1432.

concerns as to the effectiveness of mandatory separation of titles. Yet, Cyprus' decision to include this position as a suggestion has been perceived positively by many companies which chose to distinct the role of chairman and CEO (see below: Implementation of the 'code'). Moreover, the appointment of a 'corporate secretary' is a positive contribution to a desirable mixture of skills and support within the Board.

Despite the strong elements illustrated above, however, there are several important weaknesses to be considered when assessing the corporate governance framework of Cyprus. Firstly, whereas the Board of Directors of Banks must meet the 'fit and proper' requirements under the Banking Law; Companies Law does not include any requirements for directors' qualifications and independence. Instead, the only guidance on the independence of directors is the limited recommendations of the 'code' which generally follow the positions proposed by the OECD principles. Notably, there are two definitions for independence available, emerging from the 'code'[123] and the Banking regulations[124]. This is a rather confusing approach to such an important issue, despite the efforts to simplify the area by presenting the negative and positive requirements as to who is considered 'independent'.

Similarly, while law illustrates the fiduciary duties of the board members; there is no clear standards and interpretation by the courts of Cyprus in this area. Furthermore, while banks are required to evaluate their boards but there are no legal requirements, nor requirements by the Code, to which listed companies must comply with and hence evaluate the effectiveness of their boards. A final point to consider is the silence of the law in respect to the functions such as setting up budget and risk profile and similarly 'code' does not mention anything regarding the role of the board in setting the company's risk profile.

C.1.ii. Transparency & Disclosure

On a similar positive situation and hence in accordance with practices of 'good' corporate governance, appear to be the provisions of Cyprus' corporate governance framework on issues about Transparency and Disclosure. In this respect, the position that the financial statements of listed companies must be prepared in accordance with IFRS and be public is fully consistent with the provisions of proposed 'good' corporate governance. This position is supporting the belief that a clear, and reliable illustration of the financial condition and performance of the company is a vital tool for the investors, creditors and market players that relate to the past and the future of the company. Moreover, the presence of criminal sanctions strengthens the standing of the Cyprus' Corporate Governance framework in this area in preventing the submission of false information within the disclosure process.

[123] see Provision A.2.3 of the 'code'

[124] see Part XI of the 2012 Directive on 'The Framework of Principles of Operation and Criteria of Assessment of Bank's Organisational Structure, Internal Governance and Internal Control Systems'

Another important strong element in the area worth mentioning is the requirement for all listed companies to include non-financial information, as well as a report on their corporate governance environment, within their publicly available annual reports. On the one hand, going beyond the traditional financial reporting is indeed extremely vital for the exercise of 'good' corporate governance practices; 'to give investors the critical information they need to value their investment'[125]. On the other hand, providing investors with information about the company's corporate governance environment can positively contribute to their investment decision. Bearing in mind the above, the additional mention and requirements to disclose price sensitive events and the beginning of insolvency and restructuring proceedings further empower the standing of the provisions in this area.

Besides the strong elements of the provisions mentioned above, however, there two main weaknesses in the area to be considered. Firstly, the absence of any requirement to companies to disclose beneficial ownership or code of ethics is closely related to the disclosure of non-financial information and the positive effects such a behavior can have for the future of the companies. Importantly, besides being in accordance with the 'good' corporate governance practices described at the beginning of our discussion, the disclosure of information such as company's objectives, ownership and shareholders' rights, changes in control and transactions involving significant assets; and governance structures and policies, etc.; is in accordance with the Guidance provided by the United Nations Conference on Trade and Development 2006[126].

Furthermore, the second point of weakness of the provisions in this area is closely related to the position of the corporate governance framework to allow the external auditor to provide non-auditing services. Despite the requirement of disclosing evidence that, in case the external auditor provides, their independence is not negatively affected; this allowance is still very tricky. This is mainly because, companies whose external auditor provided non-auditing services must include in their annual report, a statement that the independence of the provider is not negatively affected by adopting the 'independence test' by the audit committee. The only way to be sure that this position is not weak is to see how companies comply with this requirement. For this part, bearing in mind the vague standing for the 'qualifications and independence' of directors it is very likely that this provision will not be able to be comply by companies efficiently.

[125] Fung, B., 2014. The demand and need for transparency and disclosure in corporate governance. *Universal Journal of Management*, *2*(2), pp.72-80.
[126] United Nations (2006). Guidance on Good Practices in Corporate Governance Disclosure. UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT. [online] New York and Geneva: United Nations. Available at: http://unctad.org/en/docs/iteteb20063_en.pdf [Accessed 6 May 2017].

C.1. iii. Internal control

The provisions of Internal Control within the Corporate Governance framework of Cyprus have many strengths and weaknesses but all in all are sufficiently in accordance with the positions of ‘good’ corporate governance. The initial strong point of this area is arguably the requirement of Banks to have Internal Audit and a corresponding department which will report directly to the Audit Committee as well as separate compliance functions. Similarly, the ‘code’ suggests that a sound system of Internal Control is maintained which in return should be accessed on an annual basis. Finally, another strong point of the framework is the requirement of assessment by an independent external auditor of the framework mentioned above every three years, including the assessment of companies’ financial statements.

Furthermore, regarding the existence of the Audit Committee, is worth assuring readers that the relevant provisions of its function and independence strongly in accordance with the generally accepted ‘good’ practices of corporate governance. In addition to the positions mentioned above, the framework has a strong control over Related Party Transactions and Conflict of Interest. Plainly, the sufficient law regulation of this area is accompanied by extensive cases and judicial practice and hence contribute to the adequate protection of the system of Internal Control. Contrary to this position, however, the main weakness of the area is the fact that, opposing to the position of Banks required to have an Internal Audit function in place; this is a mere recommendation for companies. Additionally, there is no code of ethics within the framework of Internal Control for organisations, as well as no provisions regarding whistle-blowing to be followed.

Further to the above weaknesses, the standing of the provisions regarding the mandatory rotation of auditing requires improvements. The initial weakness of the provisions in this area is the presence of a two-year ‘cooling off’ period for auditors. This is arguably very short period, which can negatively affect the required independence of the auditor operating within the organisations. On a similar basis, the allowance of the External Auditor to provide non-financial services carries a high degree of likelihood that such actions might reduce the independence levels of the auditor. Arguably, the combination of both those positions, and further absence of a requirement of rotation for Audit firms completes the picture of a rather weakly structure of this element of the Cyprus’ corporate governance framework.

C.1.iv. Shareholders’ Rights

Shareholders are largely protected and well represented in the organisations, by the provisions of the Cyprus Corporate Governance framework. Notably, it is perceived as a very positive position that shareholders can call a General Shareholders’ Meeting (GSM) when representing at least 10% or 5% in the case of listed companies, of the share capital. Similarly, their chance to add items to the agenda and/or submit questions in advance or during the GSM can also be considered as a great point of the provisions. Moreover, there is a possibility of shareholders participating in person or in absentia based on a power or attorney and take advantage of the opportunity of postal and electronic voting. Generally, these positions have a vital contribution to shareholders' empowerment. Finally, the protection of shareholders, against Insider Trading and Self-Dealing is another important point which protects the rights of shareholders in general and adds further strength to the provisions on this area.

After a closer study in the area however, the reader can spot important topics being missed by the regulators which in return undermine the rights of the shareholders in general and reduce their contribution to the organisations they participate. To start with, minority shareholders are moderately protected and cumulative voting is not included either in the law or in regulation. The fact that minority shareholders can participate in the election of board candidates following the commonly use of 'shareholder agreements' covers this slip, up to a certain point, but is not enough to ensure that the voice of all shareholders is heard. Finally, another important topic that is ignored by the provisions is the right of shareholders to vote on the remuneration of executives, the so-called 'say on pay'.

C.1.v. Stakeholders & Institutions

All in all, the institutional framework supporting the Corporate Governance practices in Cyprus appears to be moderately well developed, but regulatory reforms can improve the transparency of its monitoring processes. Notably, while CSE is responsible for monitoring and amending the 'code'; there are no reports disclosing companies' levels of compliance with the provisions of the 'code'. Similarly, although the rulings of the regulatory agencies which are documented and publicly; the access to them are very confusing and difficult. The same problem is apparent when it comes to case law information; where the databases available are not regularly updated. Regarding the 'code' itself, there is no case law about this area nor any evidence as to how companies must comply with the provisions. This in return, allows companies to provide too vague and not detailed or sufficient explanations within their corporate governance statements. This is clear in our discussion below, in which the implementation of the 'code' by a sample of listed companies is investigated.

C.2. Implementation of the 'code'

Because the Stock Market of Cyprus is relatively immature and small, there are only 8 companies listed on the Main Market of Cyprus Stock Exchange (see Figure 4) which, in addition to the ones included in the Alternative Market (Surveillance Market as well as the Treasury Bills, Government Bonds, Corporate Bonds and Warrants) complete the structure of the Regulated Market. The decision to focus only on those listed companies in the Main Market was based on the fact that, the legal principles contained in the 'code' are obligatory to those companies, and partially mandatory for companies listed on the Parallel Market. Hence, there are more chances that the recommendations and/or suggestions are followed by these companies, instead of by any other company listed on the Cyprus Stock Exchange. Notably, to collect that information, a close study of each company's Annual Report for 2016 took place, as well as investigation of information included in their Website and Cyprus Stock Exchange Platform. Finally, the requirements and/or recommendations selected are the ones which are considered as the most important practices of 'good' Corporate Governance, based on the first part of this thesis.

Code	Company's Full Name
BOCH	Bank of Cyprus Holdings Plc[127]
CYTR	CYTRUSTEES INVESTMENT PUBLIC COMPANY LTD[128]
DEM	DEMETRA INVESTMENT PUBLIC LTD[129]
HB	HELLENIC BANK PUBLIC COMPANY LTD[130]
LI	LCP HOLDINGS AND INVESTMENTS PUBLIC LTD[131]
LOG	LOGICOM PUBLIC LTD[132]
LUI	LOUIS PLC[133]
TSH	A.TSOKKOS HOTELS PUBLIC LTD

Figure 4: List of Companies within the Cyprus Stock Exchange, Main Market

C.2.i. Discussion & Illustration on the Results

The following table included the requirements and/or recommendations selected; and illustrates the information discussed below.

[127] Bankofcyprus.com. Available at: http://www.bankofcyprus.com/en-GB/ [Accessed 6 Jun. 2017].

[128] Cytrustees.com.cy. (2017). Cytrustees. [online] Available at: http://www.cytrustees.com.cy/cytrustees/page.php?pageID=1 [Accessed 6 Jun. 2017].

[129]Demetra.com.cy. (2017). Demetra Investment Public LTD - Home. [online] Available at: http://www.demetra.com.cy/EN/Pages/default.aspx [Accessed 6 Jun. 2017].

[130] Hellenic Bank Public Company Ltd (2017) Hellenic Bank Public Company Ltd - Home [online] Available at: https://www.hellenicbank.com/ [Accessed 6 Jun. 2017].

[131] LCP Holdings and Investments Public Ltd (2017). LCP Holdings and Investments Public Ltd - Home [online] Available at: http://www.lcp-holdings.com/index.php/gr/ [Accessed 6 Jun. 2017].

[132] Logicom Public Ltd (2017) Logicom - Home [online] Available at: http://www.logicom.net/EN/Pages/Home.aspx [Accessed 6 Jun. 2017].

[133] Louis Plc (2017) Louis - Home [onlin] Available at: http://www.louisgroup.com/index.php/en/ [Accessed 7 Jun. 2017].

	BOCH[134]	CYTR[135]	DEM[136]	HB[137]	LI[138]	LOG[139]	LUI[140]	TSH[141]
	Implementation of Main Requirements and/or Recommendations							
Board of Directors								
Separation of the role of Chairman and CEO	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Corporate Secretary in place	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Majority of the Board of Directors is independent	7/11	3/6	5/7	10/12	-	3/7	1/3	3/7
Board evaluation	Yes	No	No	Yes	No	No	No	No
Establishment of Committees	Yes [142]	Yes [143]	Yes [144]	Yes [145]	Yes [146]	Yes [147]	Yes [148]	?
Board Members	11	6	7	12	5	7	6	7
Transparency & Disclosure								
Board of Directors' Report: Independency Test, Names & Qualifications	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No

[134] Bank of Cyprus (2017). Annual Financial Report 2016. [online] Nicosia, Cyprus: Bank of Cyprus. Available at: http://www.bankofcyprus.com/globalassets/investor-relations/annual-reports/english/annual-report-2016-english.pdf [Accessed 17 May 2017].

[135] CYTRUSTEES INVESTMENT COMPANY LTD (2016). Interim Financial Statements for the six months ended June 30, 2016. [online] CYTRUSTEES INVESTMENT COMPANY LTD. Available at: http://cytrustees.com.cy/cytrustees/userfiles/documents/oikonomikes-katastaseis-gia-eksaminia-iouniou-30-08-16.pdf [Accessed 6 Jun. 2017].

[136] Demetra Investments Public Limited (2017). Annual Report on Corporate Governance. [online] Demetra Investments Public Limited. Available at: http://www.demetra.com.cy/EN/CorporateGovernance/Documents/Corporate%20Goverment%20Report%20-%202016-%20ENGf.pdf [Accessed 6 May 2017].

[137] Hellenic Bank Public Company Ltd (2017) . Annual Report [online] Hellenic Bank Public Company Ltd (2017) Available at: https://www.hellenicbank.com/images/media/assetfile/ANNUAL%20REPORT%202016.pdf [Accessed 6 Jun. 2017].

[138] LCP Holdings and Investments Public Ltd (2017) Annual Report [online] LCP Holdings and Investments Public Ltd. Available at: http://www.lcp-holdings.com/images/Anouncements/2017/LCP_Financial_Statements_2016.pdf [Accessed 6 Jun. 2017].

[139] Logicom Public Ltd (2017) Annual Report [online] Logicom. Available at: http://www.logicom.net/EN/CorporateGovernance/Documents/Corporate%20Governance%20Report%20for%202016.pdf [Accessed 19 May. 2017].

[140] Louis Plc (2017) Annual Report [online] Available at: http://www.louisgroup.com/index.php/en/2013-07-15-09-40-20/annual-report-2015 [Accessed 7 May. 2017].

[141] A. Tsokkos Hotels Public Limited (2017) Annual Report 2016 [online] A. Tsokkos Hotels Public Limited. Available at: http://www.cse.com.cy/Downloads/CSE/REG/ListedCompanies/AnnualReport2016_%CE%A4%CE%A3%CE%9F%CE%9A.pdf [Accessed 19 May 2017].

[142] Group Nominations & Corporate Committee, Group Human Resources & Remuneration Committee, Group Audit Committee, Group Risk Committee

[143] Review Committee, Appointments Committee, Remuneration Committee

[144] Nominations Committee, Remunerations Committee, Audit Committee, Risk Management Committee

[145] Risk Management Committee, Nominations – Internal Governance Committee, Remuneration Committee, Audit Committee

[146] Control Committee, Nomination Committee, Remuneration Committee, Risk Management Committee

[147] Nominations Committee, Remuneration Committee, Control Committee, Risk Management Committee

[148] Remuneration Committee, Nomination Committee, Risk Management Committee, Control Committee

Corporate Governance Report: Compliance or not with the 'code'	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Identification of Non - Executive Directors in the Annual Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Disclosure of capital, number of shares, and major transactions involving the companies' shares	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Directors' position in other companies	Yes	Yes	Yes	Yes	No	Yes	Yes	No
Information with the notes of the General Shareholders' Meetings	Yes	No	Yes	Yes	No	No	Yes	No
Annual reports in English, Updated and Informative Websites	Yes	No	No	Yes	No	Yes (?)	Yes (?)	No
Beneficial Ownership disclosure	No	No	No	No	No	No	No	No
Financial Reporting in accordance with the IFRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Code of Ethics	No	No	No	No	No	No	No	No
Internal Control								
Internal Audit Function	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Disclosure of the External Audit: Name, Opinion of their financial statement and Independence	Yes	No	No	Yes	Yes	Yes	No	No
Info on the Provision of Non-Audit services and Safeguarding of the independence of the later	Yes	No	No	Yes	Yes	Yes	No	No
Disclosure on the Rotation of Audit Partner	Yes	Yes	No	Yes	Yes	Yes	Yes	No
Inclusion of related party transactions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Rights of Shareholders								
Publication of the General Shareholders' Meeting notifications	Yes	No	No	Yes	No	No	Yes	No
Directors' transactions involving the companies' shares	No	Yes	No	Yes	No	Yes	Yes	No

Within the area of Board of Directors, the initial point to make is that all companies follow the mere recommendation that the role of Chairman and CEO should be separated, have a 'Corporate Secretary' in place except one company, and have established committees, as recommended by the 'code'. Their activities and information about their formation are generally included in the annual report of the companies. Moreover, the average number of Board Members is eight which evidently an issue which can negatively affect the board performance and only three of the companies have a majority of independent directors on their Board. Finally, only the two banks included in the sample of companies have their board undergo an evaluation.

Looking at the implementation of the provisions regarding Transparency & Disclosure reveals that all companies have a corporate governance report with financial and non-financial information in which they state whether or not they comply with the 'code'; identify the non-executive directors which are members; disclose their capital, number of shares and major transactions involving the companies' shares and finally prepare their financial reporting in accordance with the IFRS. It must be mentioned, however, that the statements which include details whether the companies comply or explain are very formalistic, general and not that meaningful.

Adding to the above discussion, for only one company there was no inclusion of a Board of Directors report within their annual report or separately; in which an independency test should be included in addition to the names and qualifications of the members. The same company accompanied by one more, failed to include the directors' position in other companies. Half of the companies disclose information with the notes of the General Shareholders' Meetings and only the two banks included in the sample have their Annual report in English and fully updated and Informative. Finally, none of the companies included mentions and/or follows any 'Code of Ethics'.

The final area to consider is Internal Control which represents a mixture of results. Interestingly, only one company from the sample has not implemented an internal control function and another one does not include related party transactions in their documentation disclosed to the public. Moreover, only four out of the eight companies disclose information about their External Audits such as their name, opinion of the financial statement and independence. The same companies provide also information on the provision of non-audit services and comment on safeguarding the independence of the external auditor. Finally, regarding the rotation of the audit partner, only two companies do not disclose information on the matter, whereas the rest do.

For the Shareholders' Rights, only two recommendations and/or requirements were looked upon. The two banks which are included in the sample of companies and one more company is the ones which publish enough information about the General Shareholders' Meeting notifications. Half of the companies provide information within their annual reports about the directors' transactions involving the companies' shares. Importantly, annual reports are largely available to shareholders which in return are generally well structured and comprehensive but only three of the companies had their information in English. A final point to consider is the common usage of shareholder agreements to allow shareholders elect their board candidates since cumulative voting is not included in the corporate governance framework.

Taking all the information above into consideration; the illustration of the strengths and weaknesses of the corporate governance framework of Cyprus leads to a first impression that the framework of corporate governance in Cyprus is generally following the positions of ‘principles’ for ‘good’ corporate governance practices. Due to its immaturity level, however, there is considerable room for improvement, especially after taking into consideration the moderate implementation of the provisions examined.

C.3. Recommendations

Bearing in mind the above discussion, the first point to consider is the insufficient guidance as to the required qualifications and independence of directors. This, in return, makes the compliance or explain requirement process of the companies more difficult and leaves room for ambiguity, as it was evidence through the investigation of the details disclosed by the sample of companies examined. The situation is more complicated however, given the presence of two different definitions of independence. Arguably, having a clear illustration and guidance about the profile of the members of a one-tier board is extremely important, especially when the boards are evidently large in terms of members participating. Bearing the above in mind, the position of this thesis on this area is that, the Corporate Governance framework should be updated appropriately and provide a single, more detailed and comprehensive guidance and coverage of the area regarding the ‘qualifications and independence’ of directors, in both companies and banks. Moving on, while there is extensive research about the role and importance of undertaking evaluations on the effectiveness of a boardroom[149]; the area does not attract the interest it deserves from neither the law nor the ‘code’. Since banks are required to undergo such an important process and generally appear to comply with this position; there is no reason not to recommended that listed companies should, as well have the work of their boards assessed.

Another aspect to consider at this part is two issues which undermine the trust between the companies and the outside world, especially the shareholders: the absence of any legal requirement to disclose beneficial ownership and no requirement for the establishment of ‘code of ethics’. For the first point, bearing in mind the evidenced illustrated above; companies do not include any further information besides the major shareholders, which action is usually involving reference to legal entities. In the end, it is completely impossible to have a clear idea about the beneficial ownership structure of the companies examined which in return reduces the levels of investors’ confidence in financial markets because of the inaccurate disclosure. On a similar base, the absence of a conception of right and wrong behavior, or so-called ethics; by the listed companies does not allow companies develop trust which in return flourishes profitability, good reputation and finally efficient business progress. All in all, the area of ‘transparency and disclosure’ within the Cyprus’ Corporate Governance is needs to be updated and

[149] Conger, J. A., Finegold, D. and Lawler, E. E. (1998) Appraising Boardroom Performance, Harvard Business Review, 136–148.; Long, T. (2006), ‘‘This year’s model: influences on board and director evaluation’’, Corporate Governance: An International Review, Vol. 14 No. 6, pp. 547-557.; Minichilli, A., Gabrielsson, J. and Huse, M. (2007), ‘‘Board evaluations: making a fit between the purpose and the system’’, Corporate Governance: An International Review, Vol. 15 No. 4, pp. 609-622.

embrace the important benefits of maintained trust among the companies and the public, especially the shareholders.

The importance of internal control has been discussed above and special attention was given on the independence of audit within the area which can arguably be ensured with the adaptation of a mandatory audit rotation. Bearing in mind this position, as well as the results of our investigation; the fact that the audit of the sample of companies examined, is contacted by international audit firms is arguably a positive starting point. As mentioned in our discussion above, however, the area is not entirely straightforward given the unclear evidence whether the benefits of such an action are greater than the costs, at both partner and audit firm levels.[150] In this way, this thesis cannot conclude with confidence that the position of Cyprus on audit rotation is entirely safe or not. What is unquestionable, however, is the need of a comprehensive empirical study such as how audit firm term can affect audit quality, based on the practices of the listed companies in Cyprus. This is vital, especially because of the above discussion and mainly the substantial doubts regarding the effective implementation of auditor's rotation based on the available information. Eventually, such this approach will enable regulators to consider an update on this area of the 'code'.

Linking to the above discussion on the importance of having a clear approach towards the concept of independence of the members of the board of directors; the independence of the auditors within the listed companies should also be safeguarded. Essentially, after considering the weak approach in the area that has been described above, the first point which must be thought of, is a possible extension of the two years 'cooling off' period for auditors. This suggestion is vital, especially because there is no established specified robust legislative or regulatory safeguards on long association between the auditor and clients. Furthermore, where companies investigated provided information for their external auditor, that information was too general to convince the reader that the independence of the auditor is safeguarded. Hence, there should be serious consideration to accompany the allowance of the external auditor to provide non-audit services, with a harsher approach towards the disclosure of information by companies in which the independence of the external auditor is safeguarded.

The absence of a comprehensive whistle-blowing legislation that has been identified above is another important serious weakness within the area of the corporate governance framework of Cyprus. Mainly because of the serious financial problems which resulted to the well-known deposit 'haircut' in March 2013 and the numerous on-going cases regarding corruption and bribery in the public sector; ensuring an environment in which transparency and trust are safeguarded is essential. Notably, in 2014

[150] Cameran, Mara and Negri, Giulia and Pettinicchio, Angela Kate, The Audit Mandatory Rotation Rule: The State of the Art (April 20, 2015). Journal of Financial Perspectives, Forthcoming. Available at SSRN: https://ssrn.com/abstract=2596492

the Committee of Ministers to the Member States adopted Recommendation CM/Rec(2014)7[151]. Asking member States to protect individuals that, in the context of their work-based relationship, report or disclose information on threats or harm to the public interest; the Committee set out some guiding principles to assist Member States review, amend or introduce relevant legislation and regulation for the matter. All in all, the EU approach in the manner, as well as the financial drama that Cyprus has gone through; should encourage a more comprehensive legislation regarding 'whistle-blowing'.

The final issues to be discussed is the absence of two main rules which in return can further improve the regulating framework of shareholders' protection. Initially, there is an important failure on a regulatory and legal level in Cyprus to include the 'say on pay' rule. Despite no evidence of high levels of directors' payments within listed companies in Cyprus, which in return would require a drastic action through the adaptation of a 'say on pay' rule; the evidenced increase of transparency and accountability between shareholders and directors is an important aspect to be considered. The recent developments at a European Union level on a revised Shareholders' rights directive which acknowledges the importance of 'say on pay' rule is very likely to change the environment in Cyprus in that area. Adding to that, the information provided by the companies examined illustrate that shareholder agreement are commonly used when it comes to allowing minority shareholders elect their board candidates. Clearly, this attitude is preferred over having a comprehensive framework of 'cumulative voting'. Considering our discussion upon the importance of protecting minority shareholders' rights however; a shift towards an adaptation of a more effective measure to protect minority shareholders with rules such as 'say on pay' and 'cumulative voting', is very likely to attract more investors and hence allow the market and companies in Cyprus be more competitive in the global arena.

All in all, the above discussion includes numerous recommendations which can improve the Corporate Governance framework of Cyprus. Fundamentally, the approach was mainly focused on what is generally perceived 'important' good corporate governance, based on the first part of this thesis. However, while such an approach is extremely vital; it can secure only a short-term success for companies and subsequently governments and nations. In this respect, although following the 'important' good corporate governance practices is extremely vital; it is equally important to be in line with the 'relevant' good corporate governance environment. Ultimately, the final consideration of this thesis will be to illustrate why is essential to consider how the technological progress is affecting the contemporary positions of corporate governance.

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[151] Council of Europe (n.d.). Recommendation CM/Rec(2014)7 of the Committee of Ministers to member States on the protection of whistleblowers. [online] Committee of Ministers. Available at: https://search.coe.int/cm/Pages/result_details.aspx?ObjectID=09000016805c5ea5 [Accessed 6 Jun. 2017].

C.4. The 'relevant' corporate governance environment

Fundamentally, as it has been mentioned in the introduction of this thesis, the focus and subsequent drastic regulation and sometimes over-regulation of the key elements of 'good' Corporate Governance; was a pure reaction to the big financial scandals and financial crises. Despite their promising outcome, however, those efforts are too close-minded and introduce a box-ticking approach, which is not fitting within the rapidly progressing technologically-driven world. Eventually, those efforts not only they failed to improve the performance of listed companies; but were even unable to eliminate corporate scandals and economic failures[152]. While every basic Contemporary Corporate Governance framework 'has inevitably played a significant role in feeding this focus on short-term financial metrics'[153]; such actions are gradually deemed to be irrelevant and outdated, especially within the world we are living now.

Simply, there is an undebatable shift from 'a "centralised" to a "decentralized" (or "unmediated") and "interconnected" world; from a world of vertical hierarchies to a world of horizontal, open and autonomous networks'[154]. Inevitably, nations, governments and most importantly companies that wish to be successful, must stay 'relevant' and pay considerable attention, understand and embrace the unprecedented technological progress. It is not utopic to think in this way, as there are already companies, usually start-ups that have no established performance record and stock market valuation or estimated valuation of more than $1 billion. They simply 'challenge the conventional wisdom by deviating from what is generally accepted to be good corporate governance'[155]. The so-called 'unicorns', which simply take advantage of the technological progress of our century, disrupt very easily, long established industries and subsequently win the battle over companies that refuse to adjust to change, the so-called 'dinosaurs'.

After considering the above, however, what is even more interesting is the fact that studies in the area argue that the unprecedented technological progress feeds the shift of a corporate governance which allows for faster, economic and international give-and-take of services, information, and ideas. Indeed, 'unicorns' have not only embraced this position but know how to utilise the advantages and

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[152]Vermeulen Erik P.M. (Feb. 20, 2017). How to Organize Now for Success Tomorrow … Winning Companies Embrace a "Tech-driven" Corporate Culture. Available at: *https://medium.com/@erikpmvermeulen/how-to-organize-now-for-success-tomorrow-winning-companies-embrace-a-tech-driven-corporate-e3dd08c9e8f* [Accessed 26 Jun. 2017].

[153] Fenwick, M., Kaal, W.A. and Vermeulen, E.P., 2017. The 'Unmediated'And 'Tech-Driven'Corporate Governance of Today's Winning Companies. Available at: *https://poseidon01.ssrn.com/delivery.php?ID=995103073068090093093071112084005065023073053045056031120087026066073029088006022078011036036121038023044084001115011027092096019006033017032126087088084012116010046001043009101084124026111069001112111119090018001107115117126023101080101012017126123&EXT=pdf*

[154] Ibid.

[155] McCahery, J.A. and Vermeulen, E.P., 2014. Six components of corporate governance that cannot be ignored. *European Company and Financial Law Review*, *11*(2), pp.160-95.

possibilities of de-centralisation and utilisation of social media, Blockchain – based smart contracts, FinTech, 'Big Data' and AI. Inevitably, their culture ends up being unmediated, flat and inclusive and their transactions peer-to-peer on or through community-based platforms. Finally, after considering the speed in which technology is progressing; there is a strong belief of 'further "decentralisation" of the world'[156] and continuing disruption of the traditional ideas of 'corporate governance' by the multiple new technologies. Subsequently, to have a complete picture of the 'relevant' corporate governance practices, the next consideration will be the way Fintech, block-chain technology, and smart contracts re-shape the contemporary business world.

C.4.i. Fintech: transforming the industry of financial services

Primarily, the definition of Fintech introduces the area as 'a portmanteau of financial technology that describes an emerging financial services sector in the 21st century […] to include any technological innovation in the financial sector, including innovations in the financial literacy and education, retail banking, investment and even crypto-currencies like bitcoin.'[157] Despite its complex ecosystem (see Figure), the sole fact that finance and hence the provision of financial services is sorely constituted on information rather than goods; makes them deeply exposed to disruption by software. Any financial action is 'more simple and less complicated […] as we do checking Facebook'[158] and traditional banks seem to fail while FinTech companies succeed in areas such as automate insurance, trading and risk management[159]. All in all, the reality is that the present customer experience is outdated and people require having their financial experience: mobile, personalised, customizable and accessible. This is what fintech start-ups are doing, in the ways briefly explained below by transforming and disrupting the outdated financial services sector.

Fintech' is initially transforming the industry of financial services provision by blurring the lines of the long-standing key players of the financial services[160] and banking and essentially stepping in between banks and their customers. Plainly, Robo-advisors[161] are replacing human wealth advisors which eventually remove brokers, are more personilised and customisable and deliver lower fees and minimums. On the same page, the area of insurance plans is also shaken by demolishing the slow and inefficient process of distributing insurance plans which were heavily depended on sales agents.

[156] Fenwick, M., Kaal, W.A. and Vermeulen, E.P., 2017. The 'Unmediated'And 'Tech-Driven'Corporate Governance of Today's Winning Companies.

[157] Investopedia (2017) Fintech [online] Available at: http://www.investopedia.com/terms/f/fintech.asp [Accessed 8 May. 2017].

[158]Mohamed, O. (2016). The FinTech Boom – Why FinTech Will Outlive Your Bank - Imperial. [online] Imperial Foreign Exchange. Available at: http://imperialfx.co.uk/fintech-boom-fintech-will-outlive-bank/ [Accessed 18 May 2017].

[159] Aldridge, I. and Krawciw, S. (2016). Real-Time Risk. 1st ed. Somerset: John Wiley & Sons, Incorporated.
[160]Cavallo, M. (2016). The FinTech effect and the disruption of financial services. [online] CIO. Available at: http://www.cio.com/article/3148756/leadership-management/the-fintech-effect-and-the-disruption-of-financial-services.html [Accessed 29 May 2017].

[161] Defined as: The automated management of investments that does not require a human advisor.

Moreover, the Point of Sale technology is transformed shaped into a mobile version. This decentralisation and flat provision of financial services are allowed by the new technologies and 'Big Data' 'to deliver a more efficient service, but also allows firms to use technology to manage legal risk more effectively'[162].

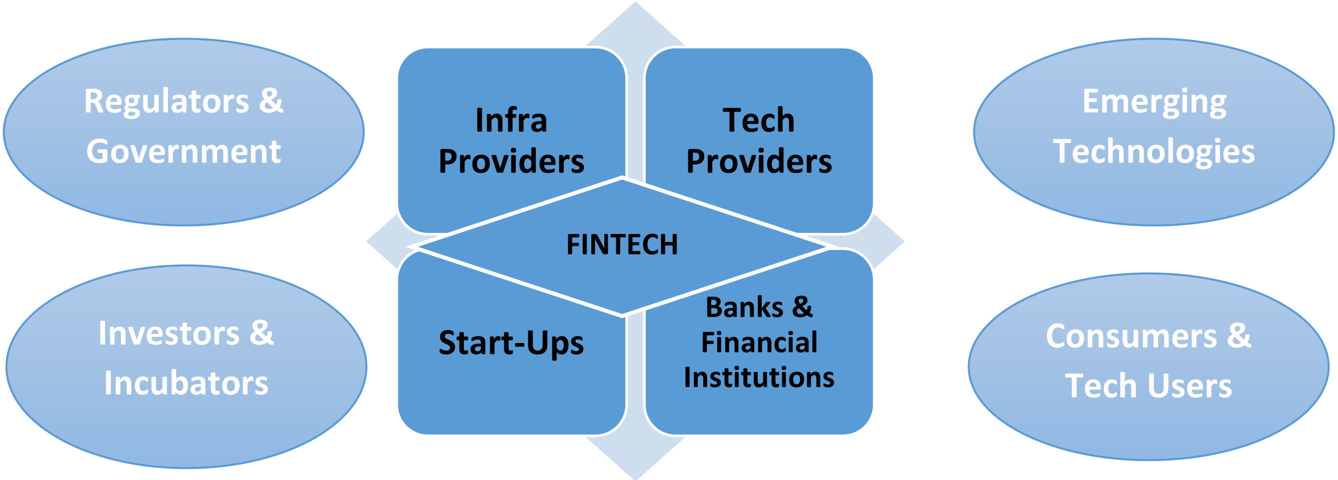

Figure 4. The Ecosystem of FinTech

The emerge of 'app-based' companies that offer an alternative source of financial services is arguably the toughest challenge and disruption especially the traditional banks and incumbents must overcome. Blockchain is restructuring the traditional and complex processes within the financial institutions by using a global network to verify the transactions that take place. Notably, Santander has been the first UK bank to introduce and use Blockchain technology regarding live international payments, and further present a report in which it approximates that block-chain technology is able to reduce bank's infrastructure costs by £12.8 billion or $20 billion, a year[163]. What is even more important to consider, however, is that new personalised experience of automatic and technological financial services is more appealing to the customers of today, the Millennials.

C.4.ii. Blockchain Technology & Smart Contracts: going beyond the industry of financial services

Vitalik Buterin is the creator of 'a blockchain-based decentralized network that could serve as the basis for the next generation of peer-to-peer' apps, like Uber (a ride-hailing app) without Uber (the company)'[164], Ethereum. A simple definition provided through his blog is presenting blockchain as "a

[162] P.M Vermeulen, E. (2017). What is the Best Regulatory Response to Fintech?. [online] Medium. Available at: https://medium.com/@erikpmvermeulen/what-is-the-best-regulatory-response-to-fintech-e3caa0ca003c [Accessed 6 May 2017].

[163] Santander InnoVentures in collaboration with Oliver Wyman and Anthemis Group (n.d.). The Fintech 2.0 Paper: rebooting financial services. [online] Santander InnoVentures in collaboration with Oliver Wyman and Anthemis Group. Available at: https://www.finextra.com/finextra-downloads/newsdocs/the%20fintech%202%200%20paper.pdf [Accessed 6 May. 2017].

[164] Fortune. (2017). Vitalik Buterin. [online] Available at: http://fortune.com/40-under-40/vitalik-buterin-31/ [Accessed 6 Apr. 2017].

magic computer that anyone can upload programs to and leave the programs to self-execute, […] guarantee that programs running on the chain will continue to execute in exactly the way that the blockchain protocol specifies."[165] The potentials of Blockchain technology and subsequently smart contracts are enormous and even go beyond the transformation of the industry of financial services described above. As discussed below, industries such as Health and Wellbeing, Agriculture and Food Security as well as Energy Suppliers can now overcome old-fashioned practices and become relevant[166].

To start with, the efforts to manually attempt to reconcile medical data within clinics, labs and hospitals, pharmacies and insurance companies can soon be a bad memory for our generation. Indeed, 'MedRee' is a worth considering the proposal of 'a novel, decentralised record management system to handle EHRs using Blockchain technology'[167] by which patients will be able to log and access to their medical information across providers and treatment sites comprehensively.[168] On a different perspective, farmers and subsequently the industry of Agriculture have always embraced technological progress and once again both do not fail to acknowledge the big chance provided by Blockchain technologies available to them. Simply, as discussed by experts; Blockchain will allow 'provenance and radical transparency in the Food Chain' as well as, 'better finance for the developing world' and finally 'trustworthy, efficient supply chains in developed economies'[169].

Adding to the above discussion, with many human processes and institutions traditionally responsible for establishing trust, being replaced by Blockchain; according to the Rocky Mountain Institute, is not a 'utopic' expectation to have a 'more secure, resilient, cost-effective, and low-carbon grid' very soon.[170] To explain this position, the writers illustrated how Blockchain technology can ultimately eliminate the problems arising from the 'aggressive growth in distributed energy resources' and the search for 'new ways better regulate and manage the electricity grid'[171]. In the end, the non-profit foundation EWF (Energy Web Foundation) focuses and support the idea that Blockchain can

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[165] Vitalik, B. (2015). Visions, Part 1: The Value o Blockchain Technology. [Blog] Available at: *https://blog.ethereum.org/2015/04/13/visions-part-1-the-value-of-blockchain-technology/* [Accessed 6 May 2017].

[166] Vermeulen, E. (2017). 3 Reasons Why the Blockchain Revolution Is (Finally) Becoming a Reality!. [online] Medium. Available at: *https://medium.com/startup-grind/3-reasons-why-the-blockchain-revolution-is-finally-becoming-a-reality-63bdd90c89e2* [Accessed 3 Jun. 2017].

[167] Halamka, MD, J., Lippman, A. and Ekblaw, A. (2017). The Potential for Blockchain to Transform Electronic Health Records. [online] Harvard Business Review. Available at: *https://hbr.org/2017/03/the-potential-for-blockchain-to-transform-electronic-health-records* [Accessed 6 Apr. 2017].

[168] Ekblaw, A., Azaria, A., Halamka, J.D. and Lippman, A., 2016. A Case Study for Blockchain in Healthcare:"MedRec" prototype for electronic health records and medical research data. Available at: *https://www.healthit.gov/sites/default/files/5-56-onc_blockchainchallenge_mitwhitepaper.pdf*

[169] Nolet, E. and Nolet, S. (2016). From Bitcoin to Agriculture: How Can Farmers Benefit from Blockchain? - AgFunderNews. [online] AgFunderNews. Available at: *https://agfundernews.com/from-bitcoin-to-agriculture-how-can-farmers-benefit-from-blockchain6380.html* [Accessed 6 Jun. 2017].

[170] Morris, J. (2017). The Energy Web Foundation: Bringing Blockchain Technology to the Grid. [online] Renewableenergyworld.com. Available at: *http://www.renewableenergyworld.com/articles/2017/02/the-energy-web-foundation-bringing-blockchain-technology-to-the-grid.html* [Accessed 6 May. 2017].

[171] Ibid.

eventually offer ‘a reliable, low-cost solution for financial or operational transactions to be recorded and validated across the distributed network with no central point of authority.’[172]

The removal of agencies and subsequently the tackle of long-standing agency problems is arguably the biggest current disruption within the world of traditional corporate business models. Launched initially in May 2016, the first DAO (Decentralised Autonomous Organisation) has been characterised ‘a sort of venture capital fund’ with No Capitalist[173] which could be ‘the greatest threat banks have ever faced’[174]. Plainly, as discussion within the area explain that it was ‘entirely built on software, code, and smart contracts that ran on the public decentralized blockchain platform Ethereum’[175]. Indeed, as the above position implies; there were no humans involved as directors, managers and/or employees and decision-making occurred with the help of software technology. In the end, because of this otherwise ‘utopic’ and strange for much Corporate Governance business structures; there was no agency and principal relationship nor the usual agency problems. Overall, despite the attractiveness and promising advantages of an ‘automatic, incorruptible, perfectly representative of the interests of its investors’[176] company; the $50 million-dollar ‘hack’ after its launching, crashed the dream. Arguably, the immature level of technology at that stage did not prevent hacking and hence collapse of the first DAO at a very early stage of its launching.

Taking all the above into consideration is clear that Cyprus is obliged to consider the above positions of ‘relevant’ corporate governance practices; as an International Business Centre. Essentially, the main industries being disrupted by the above situation is the provision of financial services and eventually banks; both in which industries Cyprus depends on its economic growth. Hence, the above illustration of the reality is a great way to have a complete picture as to what needs to be considered for a complete assessment and subsequently conclusion regarding not only ‘good’ corporate governance framework; but also ‘relevant’ and appropriate for an International Business Centre such as Cyprus.

[172] Vermeulen, E. (2017). 3 Reasons Why the Blockchain Revolution Is (Finally) Becoming a Reality!. [online] Medium. Available at*:* *https://medium.com/startup-grind/3-reasons-why-the-blockchain-revolution-is-finally-becoming-a-reality-63bdd90c89e2* [Accessed 3 Jun. 2017].

[173] Popper, N. (2016). A Venture Fund With Plenty of Virtual Capital, but No Capitalist. [online] Nytimes.com. Available at: *https://www.nytimes.com/2016/05/22/business/dealbook/crypto-ether-bitcoin-currency.html?_r=0* [Accessed 6 May. 2017].

[174]Cleary, A. (2016). Here Is How The DAO Will Soon Become The Greatest Threat Banks Have Ever Faced. [online] Frontera News. Available at: *https://fronteranews.com/news/dao-will-soon-become-greatest-threat-banks-ever-face/* [Accessed 10 May. 2017].

[175] Kall, W. (2017). Blockchain Solutions for Agency Problems in Corporate Governance. [online] Medium. Available at: *https://medium.com/@wulfkaal/blockchain-solutions-for-agency-problems-in-corporate-governance-a83aae03b846* [Accessed 24 May 2017].

[176] Dunn, W. (2016). The rise and fall of The DAO, the first code-based company. [online] NS Tech. Available at: *http://tech.newstatesman.com/feature/dao-code-based-company* [Accessed 26 May. 2017].

Conclusion

The basic idea of this thesis is that a Corporate Governance framework which follows the basic principles of 'good' corporate governance: fairness, accountability, responsibility, and transparency can ensure the success and potential of companies; and eventually the economic growth of the country. In this way, the initial approach was to briefly illustrate the basic positions of 'good' corporate governance practices. For this purpose, this thesis used the latest version of the 'G20/OECD Principles of Corporate Governance', issued in 2015. This is mainly because their positions have been globally accepted as an international benchmark and a starting point for assessing and subsequently improving corporate governance frameworks. What is clear from the illustration of the key positions outlined through the chapters of the 'principles'; is that all the elements discussed need to cooperate in order to have a company which works efficiently and effectively.

It all begins with an effective corporate governance framework which will allow the key players to perform their duties in the best way possible, without undermining the different types of companies. One of the most important groups of people that are extremely depended on a 'good' corporate governance framework are shareholders. The protection of their rights is undeniably a great indicator of a 'good' corporate system which eventually contributes to the economic development of a country. Similarly, the role of the stakeholders within an organisation is an important element which receives considerable attention by the 'principles', as a key part of the investment chain. Furthermore, the 'principles' highlight the importance of two further important elements of corporate governance. Having a pioneer position within the values of 'good' corporate governance; Transparency and Disclosure have been acknowledged as the ultimate connection between the company and the world, in both financial and non-financial information.

Finally, the positions regarding the responsibilities of the Directors within the last part of the 'principles, discussed adequately their responsibilities or roles, especially within the Internal Control System and their composition and structure have received considerable attention from studies as to their importance to complete an 'good' corporate governance framework. What has been acknowledged within this part of the discussion is the importance of independency of directors as well as auditors within the Internal Control system. This characteristic, together with several important topics that have been discussed in that part of the thesis; work together in enabling the board of directors, as the 'mind' of the organisation, perform meet their responsibilities. All in all, considering the definition of corporate governance provided at the introduction of this thesis; the importance of understanding how the key elements of corporate governance are related to each other is of vital importance.

It is the position of this thesis that, because corporate governance is applicable to all types and structures of companies; there is no perfect recipe for a corporate governance framework. There is always, however, a starting point by which a country can assess and subsequently improve their provisions in the area. In this way, the illustration of ‘principle’s’ positions regarding ‘good’ corporate governance practices was the basis of the assessment of the corporate governance framework of Cyprus. Hence, after giving considerable attention in the identification of the strengths and weaknesses of the provisions; this thesis could provide a series of recommendations which in return will enable the improvement of the corporate governance framework in Cyprus.

Essentially, the strengths within the framework of corporate governance allow us to conclude that the area has received considerable attention from regulators. Indeed, many of the recommendations of the ‘principles’ are followed and these include arguably the most important points which are the adaptation of the ‘comply or explain’ rule. Issues such as the ‘qualifications and independence’ of the board, however, did not receive the attention deserved for both companies and banks. Plainly, the presence of two different definitions of independence is leaving room for confusion and invites ambiguity in reporting and disclosure by companies. Similarly, although the system of Internal Control has important strengths, the provisions regarding external auditor and the rotation of auditors are eventually undermining the vital characteristic of independency. These are few of the weaknesses identified which in return invite poor or no implementation of important positions of the framework.

Having said that, it must be recognised that the recommendations provided in this thesis, are not detailed or exclusive. They constitute, however, a very good starting point for future empirical research and hence guidance for the improvement of the corporate governance framework of the island. This is extremely important, as Cyprus has maintained its recognition as an International Business Centre that came close to bankruptcy in 2013; survived an external shock, reset its targets in restructuring its economy and finally currently experiencing an astonishing revival. The real challenge for Cyprus, however, is to fully restore the banking sector and the crisis was perceived as a great chance to adopt a more adaptive economy, and follow structural changes which will strengthen the status of Cyprus as an attractive investment destination. In this respect, improving the corporate framework and encourage education on the importance of having a ‘good’ corporate governance framework is of vital importance, as it will restore the credibility of the island in all the levels and further attract businesses and investors.

During that process, however, is of vital importance to take into serious consideration the gradual wider appreciation and focus on ‘long-term’ value creation within organisations mainly due to the positions of the ‘relevant’ corporate governance. This suggestion is heavily attributed to the unbelievable technological progress and transformation of the world as we know which eventually changes many of the traditionally ‘good’ corporate governance positions. In the end, ‘as blockchain technology becomes more sophisticated and as the disrupted computing power needed for more complex systems like Ethereum grows'[177]; the positions illustrated in the last part of this thesis should not be set aside. For that, the introduction of the "Commonsense" Corporate Governance Principles[178], despite being primarily focused on publicly listed companies in the United States; could be considered. Similarly, 'The New Paradigm' issued by the International Council of the World Economic Forum that highlights the role of Board of Directors 'in implementing corporate governance strategies and a corporate culture that pursues sustainable long-term value creation'[179], must receive sufficient attention.

In conclusion, while this thesis provides an assessment of the corporate governance framework of Cyprus, accompanied by recommendations for further improvement; it goes a step ahead and states that this is necessary but not enough. Especially for a small island with the capacity to be recognised as an International Business Centre, that is heavily depended in industries currently disrupted by the technological progress; remaining constant and irrelevant within the new development is not an option. Therefore, this thesis aims to motivate the regulators of the Republic of Cyprus to consider the recommendations mentioned in order to improve the corporate governance of the island, making it not only in accordance with the 'good' but also 'relevant' Corporate Governance Principles.

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