



**GEORGE TSIELEPIS,  
MANAGING DIRECTOR  
OF COSTAS TSIELEPIS &  
CO LTD, BELIEVES THAT  
THE PROFESSIONAL  
SERVICES SECTOR  
CAN CONTINUE  
TO THRIVE AND  
OVERCOME  
THE MANY  
CHALLENGES IT  
FACES, PROVIDED  
THAT A NEW,  
SOLID BUSINESS  
MODEL IS  
IMPLEMENTED.**

# TECHNOLOGY, COMPLIANCE AND ACCOUNTABILITY

**H**as the professional services sector, including the Audit, Tax and Advisory services that your company specializes in, been impacted by the events in Ukraine and, if yes, what steps can be taken to lessen this impact?

The events in Ukraine are only the latest on a long list of events affecting the professional services sector in Cyprus, which has traditionally been largely reliant on the Russian market. Most of the previous developments, such as the application of the “controlled foreign corporation” concept for tax purposes by Russia, the unilateral revision (by Russia) of the Russia-Cyprus Double Tax Treaty, which withdrew certain tax benefits for Cyprus tax residents doing business in Russia, and the banking crisis of 2013, had already diminished the importance of the Russian market to our industry. The events in Ukraine have only served to accelerate the “de-Russianisation” of the professional sector in Cyprus. It has become increasingly clear that the repercussions of the Ukrainian crisis will be long-lasting and the many practical, regulatory, reputational and political barriers now raised mean that it is no longer possible to maintain the same kind of professional relationships that our industry has developed with various sectors of the Russian economy over the past 30 years or so.

Various steps are being taken in order to lessen the impact of the events in the Ukraine and the professional services sector is working closely with the Government to attract new business from abroad, via schemes such as the “Cyprus Startup Visa” or incentives to encourage the relocation of international companies’ headquarters to Cyprus, such as reduced income tax rates for expatriates. At the same time, we are taking advantage of the “on-shoring” of international business, a process whereby companies with international activities choose to physically relocate to Cyprus and carry out their busi-

ness from here. This has created ample opportunities for tax, VAT and advisory services that did not exist to such an extent before. Inevitably, due to the events in Ukraine, many client relationships have been lost almost overnight. New professional relationships normally take months if not years to develop, meaning that right now, many professional service firms are involved in a marathon to win new business and it is likely that some may be unable to finish the race.

**What are the other main challenges currently facing the professional services sector in Cyprus? How do you believe they can be overcome?**

The professional services sector in Cyprus was built on foundations that are now outdated. The traditional “corporate-driven” model of the Cyprus holding or financing company, existing with no real substance in Cyprus or effective management and control in Cyprus, has been under attack by tax jurisdictions worldwide that have adopted a much more sophisticated approach to cross-border transactions. The introduction of formal Transfer Pricing requirements, cross-border DAC6 reporting requirements and the proposed EU Directive on Shell Entities (ATAD3) will bring about the death knell of such companies.

At the same time, our reputation as a sector has been severely tarnished by the multitude of money-laundering, “golden passport” and tax evasion scandals that have appeared in international publications over the years. This has been largely of our own making, since we have proved unable, until now at least, to effectively self-regulate professional services. This lack of effective oversight and professional accountability has meant that an unscrupulous small minority of accountants, lawyers and administrative service providers have been allowed to adversely impact the reputation of the professional services sector as a whole. These challenges can be overcome by implementing a new

business model for our sector, based on tax and regulatory compliance, and introducing a strong framework of accountability within the profession. However, we can’t do this alone. The Government needs to invest additional resources in training and staffing key departments such as the Tax Department and the Department of Social Insurance to ensure that officials there understand the latest tax directives and legislation and effectively apply them in a uniform, transparent and business-friendly way.

Professional regulatory authorities – in particular CySEC, ICPAC and the Cyprus Bar Association – need to implement a uniform and integrated approach when it comes to regulatory oversight and deal with the fragmentation and monitoring weaknesses that currently exist. Moreover, it seems that lately, the Cyprus banks’ favoured approach is “no business, no risk”. The banking sector needs to finally develop an intuitive understanding of what constitutes AML Compliance and place this within the context of international business. It cannot rely on the “standard checklist approach” when it comes to Client KYC. This approach not only does not effectively manage ML/TF risk but has also made us the laughing-stock of our European counterparts, which are more than happy to recommend their own jurisdictions to our clients.

**Your firm has embraced new technology, such as providing an e-library. Do you believe that this the way forward for the broader professional services sector?**

Embracing new technology is the way forward for all businesses, not only those in the professional services sector. Failure to keep up with technological developments will quickly lead to a loss of competitive advantage and thus a loss of business. The COVID-19 pandemic has only served to accelerate this technological trend. Our digital repository of industry-specific and tax-related information, called E-Library, the migration of all our IT systems to the cloud,

paperless operations, e-meetings with staff, clients and associates alike and remote working are all recent developments as part of our efforts to enhance the quality of our services and to make them more efficient.

Some of the new practices introduced in our sector over the past couple of years, such as extended remote working, are still being assessed to see if they are beneficial in the longer term. We are monitoring with interest the relatively small number of professional services firms that have embraced flexibility with remote working post-pandemic or have introduced the four-day working week, to see if tangible long-term benefits will accrue, such as an increase in work productivity and staff motivation and commitment.

**Efforts to attract international tech companies to relocate to Cyprus seems to be bearing fruit. Could this be a new sector of growth for the professional services sector as well?**

Indeed, many international tech companies have relocated to Cyprus over the past few years. This has provided the professional services sector with an opportunity for growth and for diversification from the dwindling Russian market. Financial technology (Fintech) companies in particular, which use new technologies to improve and automate the delivery and use of financial services, are continuing to arrive in Cyprus at a fast pace.

Cyprus has over 40 years of cumulative knowledge and experience in the international business sector. Fintech and IT companies in general present us with a unique opportunity to reinvent Cyprus as an international hub for such services. We should all learn from our past mistakes and capitalise on our strengths to make this work. It’s about time we proved to our European and international peers that we can offer some of the best service infrastructure in the world for this new industry, and free ourselves from the tarnished image of the past which continues to haunt us.