



**Regulatory & Enforcement  
Exposure for Cyprus  
Investment Firms | 2026  
Outlook**



## Introduction

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Cyprus Investment Firms (“CIFs”) continue to operate within an increasingly complex regulatory environment shaped by evolving European Union legislation, supervisory expectations, and a growing emphasis on enforcement across the financial services sector. In recent years, regulators have moved beyond assessing formal compliance frameworks and now place greater emphasis on **substantive governance, operational resilience, and the effectiveness of internal control systems.**

Within Cyprus, CIFs are supervised by the Cyprus Securities and Exchange Commission (“CySEC”), which implements and enforces key European regulatory regimes, including the Markets in Financial Instruments Directive (MiFID II), EU anti-money laundering directives, and other financial services legislation. CySEC has increasingly aligned its supervisory approach with broader European supervisory trends, focusing on governance accountability, risk management effectiveness, and cross-border regulatory exposure.

For internationally active firms operating through Cyprus, these developments highlight the importance of a proactive approach to regulatory risk management. The following briefing outlines key areas where CIFs may encounter increased regulatory scrutiny or enforcement exposure during 2026.

## Governance and Board Accountability

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Across the European financial services landscape, regulators have increasingly emphasised the **responsibility of boards and senior management for regulatory compliance.** CySEC has adopted a similar supervisory posture, expecting CIF boards to demonstrate meaningful oversight of regulatory matters rather than relying solely on internal control functions.

In practice, supervisory reviews increasingly focus on whether boards actively monitor compliance risks and whether regulatory issues are appropriately escalated to senior management. Regulators may examine board minutes, governance structures, and reporting lines to assess whether directors are sufficiently engaged in regulatory oversight.

Where deficiencies in governance structures are identified, enforcement measures may extend beyond the firm itself to include **administrative sanctions against directors or senior executives as well as compliance managers.** As a result, board-level engagement with regulatory risk has become a central aspect of supervisory expectations.

## Anti-Money Laundering and Sanctions Compliance

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Anti-money laundering (“AML”) compliance remains one of the most significant areas of regulatory focus for CIFs. Both CySEC and European supervisory authorities have intensified scrutiny of AML frameworks, placing particular emphasis on the practical effectiveness of monitoring systems and due diligence procedures.

Regulators increasingly examine the adequacy of transaction monitoring tools, sanctions screening mechanisms, and the overall quality of customer due diligence files. Particular attention is often paid to the handling of high-risk clients, politically exposed persons, and clients associated with higher-risk jurisdictions.

In addition, firms are expected to demonstrate that suspicious activities are appropriately escalated internally and reported to the relevant authorities when required. Supervisory reviews now frequently assess whether AML systems operate effectively in practice rather than merely reviewing formal policies and procedures.

Given the international nature of many CIF client bases, the interaction between **cross-border transactions, sanctions regimes, and AML monitoring systems** remains an area of continuing regulatory attention.

## Supervisory Inspections and Thematic Reviews

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CySEC has increasingly relied on **on-site inspections and thematic supervisory reviews** as a means of assessing the operational practices of regulated firms. These inspections often extend beyond traditional compliance reviews and examine the broader governance and operational frameworks of CIFs.

Recent supervisory practice suggests that inspections frequently focus on matters such as governance effectiveness, safeguarding of client assets, outsourcing arrangements, and the functioning of internal control functions. Regulators may also review how firms manage operational risk and whether appropriate escalation procedures exist for regulatory breaches. It is also common to further pay attention to the firm’s business continuity and recovery plans as well as remuneration and conflict of interests’ arrangements.

Thematic reviews allow CySEC to evaluate industry-wide practices in specific areas and may lead to follow-up supervisory actions where deficiencies are identified. Consequently, many

regulated firms now conduct internal regulatory risk assessments to identify potential vulnerabilities before supervisory inspections occur.

## Cross-Border Services and Substance Expectations

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Many Cyprus Investment Firms provide services to clients across multiple jurisdictions within the European Union. While the EU passporting framework facilitates cross-border operations, regulators increasingly examine whether firms maintain sufficient operational substance and effective management within their home jurisdiction.

In this context, regulators may assess whether key management decisions are genuinely taken in Cyprus, whether firms maintain appropriate local staffing and infrastructure, and whether cross-border marketing or client onboarding activities are conducted in accordance with regulatory requirements.

Where regulators perceive that firms operate primarily from outside Cyprus or rely excessively on external structures, questions may arise regarding the effective supervision of those activities. Ensuring that governance and operational decision-making remain demonstrably within Cyprus has therefore become an important aspect of regulatory compliance. When regulators have solid indications that Firms in Cyprus are in practice letterbox entities, such indications will be assessed and investigated, and relevant actions will be taken in a timely manner.

## Digital Operational Resilience and Technology Risk

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Digital infrastructure and technology providers have become central to the operation of modern financial institutions. In response to the increasing systemic importance of digital resilience, the European Union has introduced the **Digital Operational Resilience Act (“DORA”)**, which establishes a comprehensive framework governing ICT risk management within the financial sector.

DORA introduces new obligations for investment firms in areas such as ICT risk governance, cyber incident reporting, digital resilience testing, and oversight of third-party technology providers. Firms are expected to maintain detailed registers of their ICT providers and ensure that contractual arrangements with those providers comply with regulatory requirements.

Given the increasing reliance of financial institutions on external technology providers and digital infrastructure, regulators are expected to closely examine outsourcing arrangements, ICT governance frameworks, and cyber resilience strategies in the coming years.

## Data Protection and Client Information Management

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Financial institutions process large volumes of sensitive personal and financial data, which places them squarely within the scope of the **General Data Protection Regulation (“GDPR”)**. While GDPR has been in force for several years, enforcement activity across Europe continues to increase.

Regulators frequently assess whether financial institutions maintain appropriate data governance frameworks, including policies governing data retention, cross-border data transfers, and the security of client information. Firms must also ensure that they are capable of responding to data subject access requests and reporting data breaches within the strict timeframes required by law.

In practice, regulators increasingly expect firms to demonstrate that data protection safeguards are embedded in their operational processes rather than merely reflected in written policies.

## CySEC Supervisory Guidance and Circulars

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CySEC continues to issue regulatory guidance through supervisory circulars designed to clarify regulatory expectations and strengthen governance practices within regulated entities. Circulars issued by the regulator often address operational and organisational matters that may become focal points during supervisory inspections.

Recent guidance, reinforces expectations regarding internal organisation, effective compliance monitoring, and the oversight of outsourced functions. Such circulars form part of the regulator’s broader supervisory framework and may serve as reference points when assessing the adequacy of a firm’s governance arrangements.

As supervisory expectations continue to evolve, regulated firms are expected to ensure that their internal frameworks remain aligned with the regulator’s guidance.

## Conclusion

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The regulatory environment for Cyprus Investment Firms is expected to remain dynamic and increasingly supervision-driven during 2026. Across the European financial services sector,

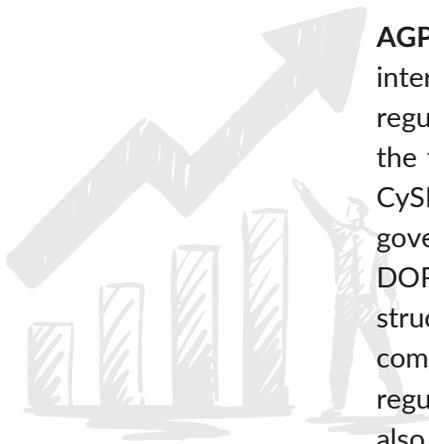
regulators continue to emphasise **substantive compliance, governance accountability, operational resilience, and effective risk management frameworks.**

For internationally active firms, regulatory exposure often arises from the interaction between multiple regulatory regimes, cross-border operational structures, and evolving supervisory expectations. As a result, many institutions are placing greater emphasis on proactive regulatory risk assessments and governance reviews to ensure that their internal frameworks remain robust.

Maintaining effective governance structures, resilient operational systems, and strong compliance cultures will remain central to navigating the regulatory environment facing CIFs in the years ahead.

## How AGPLAW Can Assist

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**AGPLAW** regularly advises regulated financial institutions and international investment groups operating in Cyprus on complex regulatory and governance matters. Our team supports clients across the full spectrum of supervisory and regulatory exposure, including CySEC regulatory interactions, AML and sanctions risk management, governance and board advisory, digital operational resilience under DORA, data protection under GDPR, and strategic regulatory structuring within the EU framework. We work closely with compliance teams, senior management, and boards to ensure that regulatory obligations are addressed not only at a formal level, but also through practical and operationally effective frameworks.

For large institutional and internationally active groups, regulatory challenges often arise at the intersection of multiple regulatory regimes, operational structures, and evolving supervisory expectations. In this context, AGPLAW provides substantive advisory support, combining regulatory, corporate, litigation, and sanctions expertise within a large but single integrated team. This allows us to assist clients on both day-to-day regulatory matters and complex strategic issues, acting as a trusted partner in Cyprus and across the European regulatory landscape.



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