

OFFSHORE BANKING LAW

LAW NO: 46/2000

Short Title 1- This law may be cited as the Offshore Banking Law.

First Part

General Provisions

- Interpretation 2- In this law unless the context otherwise requires:
“Council of Ministers” means, the Council of Ministers of the Turkish Republic of Northern Cyprus.
“Ministry” means the Ministry of Economy and Finance.
“Central Bank” means, the Central Bank of the Turkish Republic of Northern Cyprus.
“OECD” means, the Organization for Economic Cooperation and Development.
“Offshore Bank” defines banks registered in the Office of the Registrar of Companies of the TRNC, carrying on the business of banking, such business being directed entirely to extraterritorial transactions.
- Objective 3- The objective of this Law is to contribute favorably to the integration of the Turkish Republic of Northern Cyprus financial sector with international financial sectors and to the economy of the country and employment, and to regulate the activities of offshore banks.

Second Part

Principles of Establishment

- Conditions for 4- (1) The following provisions must be satisfied by corporate bodies formation and real persons who propose to establish an offshore bank for carrying on the business of offshore banking in the TRNC
- (A) Founders or shareholders of offshore banks shall be foreign nationals. Provided that real persons of TRNC nationality not residing in the TRNC may become founders and shareholders of offshore banks.
 - (B) Must reside in the Republic of Turkey, in OECD countries or in any other country that has diplomatic ties with TRNC.
 - (C) Must own at least 51 % shares of a bank in Turkey or other OECD countries in operation and not being subject to any restrictions or must have the power of controlling such bank indirectly through contributions in shares obtaining the minimum majority required for such control.
 - (Ç) Corporate Bodies must have obtained from the authorities responsible for applying and controlling the implementation of the provisions of banking laws in Turkey or other OECD countries, the necessary licence for carrying out the business of banking in those countries without any restrictions, such licence being valid at the date of application.
- (2) For the purpose of this law;
- (A) Partnerships in which a real person and his/her spouse

and children under his/her guardianship take part with unlimited liability or partnerships in which such persons act as chairman or Member of the Board of Directors, General Manager or Assistant General Manager; and

(B) For the people mentioned in subsection (A), the partnerships, in which they take part directly or indirectly with 25% (twenty five per cent) shares or more, will be treated as indirect partnership.

- (3) Those who will commence offshore banking business in the TRNC according to the provisions of this law, apply to the Ministry.
- (4) The documents that will have to be submitted at the time of application and establishment and the content of these documents will be determined by a notification of the Ministry.
- (5) In applications, an application fee in the amount of \$ 1000 has to be deposited within the Central Bank.
- (6) In the establishment of offshore banks article 347 and subsection(1) of Cap 113 (Companies Law) is not considered.
- (7) Without considering the article 365 of Cap 113 (Companies Law), other than the directors or shareholders, no one can investigate the files of offshore banks within the Office of the Registrar of Companies of the TRNC without the written consent of the Ministry.

Transfer of Shares 5- For a person to own 10 % or more shares of an offshore bank capital or shares owned of a partner that exceeds 10 %, 33 % or 50 % or any shares belonging to a partner that goes below the ratios given above, for being able to transfer these shares, the consent of the Ministry is required. The shares transferred and shares that are registered in the share book, without the consent of the Ministry, are null and void. For the transfer of shares to corporate bodies that are subject to permission, the real persons in the management and control of corporate bodies to be acquired must be documented and they should carry the qualifications of founders.

Name and Title of Offshore Banks 6- The names of the offshore banks that will be established in the TRNC are determined; by adding “Offshore Ltd.” or “(North Cyprus Offshore Ltd.” or (Kıbrıs) Offshore Ltd.” to the banks of the founders already operating overseas, to the local names belonging to the TRNC, to the own names of the founders or to Turkish names.

Provisional licence 7- (1) The Ministry can get the view of the Central Bank for the applications made in relation with article (4) of this Law. The Central Bank is obliged to give its view to the Ministry on this subject no later than 10 working days.
(2) The ministry examines the applications and if deemed suitable from the date it receives the view of the Central Bank, gives the provisional licence within 10 working days at the latest.

Capital of the Establishment and provisional licence rendered absolute 8- (1) Minimum paid up capital required of offshore banks is 500,000 US\$ in cash upon payment of the cash capital into a blocked account at the Central Bank the provisional licence is rendered absolute.

Cap 113 28/1974 (2) Offshore banks must pay a licence fee every year. Those off shore banks getting their provisional licence and completing

7/1977
30/1983
28/1987
65/1989
56/1991
42/1997

their official registration procedures under the Cap 113 (Companies Law) within the Office of the Registrar of Companies of the TRNC are obliged to deposit a licence fee in the amount of \$20,000 to the vendors of the tax office. Offshore Banks, upon paying their licence fees to the vendors of the tax office by the end of January each year, offshore banking licences are automatically renewed. Unless licence fees are deposited by the end of January, the licences of offshore banks are revoked and their operations are ceased by the Ministry. This process is announced to the competent authorities.

- (3) Those offshore banks that have already received their provisional licence and completed their registration procedures, to be able to request an operational permit, shall form a complete place of operation in no later than 3 (three) months, shall provide the registration papers received from the Office of the Registrar of Companies of the TRNC to the Ministry, the opening balance sheet approved by an external auditor and the document showing that the licence fee is paid.
- (4) Officials of the Ministry, control to find out if the complete place of operation is formed or not and upon their approval, operation permit is given by the Ministry.

Third Part

Operational Principles

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| Activities of Offshore Banks | 9- | <ol style="list-style-type: none">(1) Offshore banks, in line with international banking practice requirements, shall perform their banking operations with real persons and corporate bodies residing outside TRNC and entirely in an outward-oriented manner.(2) Offshore banks may open deposit accounts within onshore banks operating in TRNC.
Furthermore, offshore banks for their own needs necessary to meet all kinds of perpetual and administration expenses shall open an account with any of the authorized banks operating in the TRNC and make their payments from this account.(3) Offshore banks, may give loans to finance the projects that have received investment incentives from TRNC authorities, with the consent of the Ministry.(4) Offshore banks can make investment for the shares and other securities of companies registered in the TRNC.(5) Offshore banks shall perform their international banking and other financial transactions freely and independent of the taxation and financial provisions which are in force in the TRNC. |
| Source and Earning Transfers | 10- | Offshore banks may transfer abroad the sources at their disposal and their retained earnings without regard to any restriction in the current legislation. |
| Accounting Transactions | 11- | <ol style="list-style-type: none">(1) Offshore banks, with their accounting record and transactions and for preparing the profit and loss accounts and financial statements shall use US\$ or equivalent of Euro as the currency unit.(2) Offshore banks, to be in line with this law, must use US\$ for paying any kind of duties, tax and levies. |
| Audit | Cap 12- | <ol style="list-style-type: none">(1) Ministry and the Central Bank are authorised for auditing the activities of offshore banks according to the principles of this |

28/1974		law.
7/1977		Also, the principles that are applied by the Ministry and the
30/1983		Central Bank for the audit of banks, according to Companies
28/1987		Law (Cap 113), Banking Law, Tax Law, Money and Foreign
65/1989		Exchange Law and the Prevention of Money Laundering Law,
56/1991		shall also be applied to offshore banks and Ministry and the
42/1997		Central Bank shall audit the offshore banks according to these
		Laws.
	(2)	The qualifications of those who will carry out the audits as well
		as the method and principles of audit shall be specified in a
		regulation issued by the Ministry and approved by the Council
		of Ministers and published in the Official Gazette.
	(3)	As a result of audits carried out, the applications of offshore
		banks which are not in line with this law shall be ceased by the
		Ministry and the process is announced to pertinent authorities.
Employment	13-	Either the General Manager or the Assistant General Manager, who
of Personnel		will have an administrative function in an offshore bank, shall be a
		citizen of TRNC and shall reside in TRNC. At least half of the
		Personnel that will be employed by any offshore bank must be TRNC
		citizens. Offshore banks must submit a list of their personnel to the
		Ministry following the commencing of their operations. Also, the
		Ministry must be notified of any employee changes in no later than 10
		working days.
Board of	14-	Board of Directors of offshore banks are made up of at least 3 (three)
Directors		persons and at least 1 (one) of them must be a TRNC citizen. Also, any
		1 (one) of these directors must have higher education in any fields of
		economy, business, accounting, banking and finance.
Submission of	15-	Offshore banks shall submit a copy of their audited annual accounts,
Annual		no later 1 (one) month from the date of approval of the reports to the
Reports		Ministry, to the Central Bank and the Office of the Registrar of
		Companies of the TRNC.

Forth Part

Financial Provisions, Exemptions and Provisions of Punishment

Registration	16-	For the official registration of offshore banks within the Office of the
Fee		Registrar of Companies of the TRNC, for increasing their capital and
19/1963		for transfer of shares, without regard to Stamp Law and Companies
29/1970		Law (Cap 113), a fee of 0.2 (two per thousand) shall be paid.
12/1972		
2/1973		
37/1977		
27/1980		
12/1987		
42/1987		
25/1991		
39/1995		

Cap 113

28/1974
7/1977
30/1983
28/1987
65/1989

56/1991

42/1997

Tax Obligation 17-

41/1976

24/1977

62/1977

11/1980

35/1980

35/1983

36/1987

70/1993

Offshore banks shall be subject to a tax at the rate of %2 (two percent) to be attained as a base value with regards to the provisions of the corporation Tax Law and Income Tax Law and without regard to other provisions of Corporation Tax Law and Income Tax Law.

24/1982

11/1985

67/1987

16/1989

20/1990

22/1991

14/1992

20/1992

69/1993

21/1995

1/1997

4/1998

16/1998

3/1999

Tax
Exemption

18-

One vehicle to be imported by offshore banks for their own needs, shall be exempt from any kind of tax.

Punitive
Sanctions

19-

(1) Where as a result of audits carried out it is detected that offshore banks as well as the managers of these banks have in their operations contravened the article 12 of this law, shall be regarded to have committed an offence and upon their convictions, shall be punished with the penalties of pertinent laws.

(2) Offshore banks and their managers that have in their operations contravened any other article other than article 12 of this law, shall be regarded to have committed an offence and upon their conviction, shall be fined up to 10,000,000,000 (ten billion) TL or given a prison sentence up to 7 (seven) years or both penalties shall be given.

Fifth Part

Transitional Provisions

Transitional
Article
Offshore
Banks
complying the
provisions of
this law

1-

Those offshore banks established before the coming into force of this law, shall comply with the new provisions of this law starting after six months of publishing this law in the Official Gazette.

Transitional
Article
Regulations

2-

Starting from the date of coming into force of this law until the new regulations are enacted according to this law, the regulations enacted under the previous offshore law and are not in contradiction with the

48/1990

new law shall be effective. The new regulations according to this law shall be prepared and come into force within 1 month of the date the new law is enacted.

Sixth Part
Final Provisions

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| Repeal
48/1990 | 20- | As from the date of effect of this law the Offshore Banking Law shall be repealed. |
| Executive
Power | 21- | The Ministry shall execute this law. |
| Coming into
Force | 22- | This law shall be effective as from the date of its publication in the Official Gazette. |