



THE NEW FOREIGN DIRECT INVESTMENTS SCREENING LAW IN CYPRUS

What investors and companies need to know

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On 2 April 2026, the Law on the Establishment of a Framework for the Screening of Foreign Direct Investments No. 194(I)/2025 (the "**Law**") enters into force, in order to align Cyprus with Regulation (EU) 2019/452. In other words, for the first time, a mandatory mechanism for the screening of foreign direct investments is introduced in the Republic of Cyprus.

Founders and companies based in Cyprus, raising or planning to raise capital from investors outside the European Union, the European Economic Area, or Switzerland must immediately assess whether the Law applies to their current or upcoming transactions, before those transactions are completed.

The purpose of this article is to provide a practical and accessible overview of the Law: which investments fall within its scope, how the notification and screening process works including the applicable timelines, what the consequences of non-compliance are, and what judicial protection mechanisms are available.

Which Transactions Fall Within the scope of the Law

The fundamental principle of the Law is that no foreign investor may complete an investment of strategic importance in a Cypriot company without having first obtained written approval from the Ministry of Finance (the "**Ministry**"). Approval is not implied by the silence of the authority. An express, written decision is required.

A "*foreign investor*" can be a natural or legal person. Any natural person who is not an EU, EEA or Swiss national, as well as any company established in a third country, can fall under the definition of a "*Foreign Investor*".

The notification obligation does not apply to every investment. It is triggered when three conditions are met simultaneously.

First, the investment results in the acquisition of at least 25% of the share capital or voting rights, or an equivalent ability to exercise influence over the management of the Cypriot company. This percentage is calculated on a combined



basis, including indirect shareholdings and coordinated actions with other investors.

Second, the total value of the investment reaches or exceeds €2.000.000,00. This amount is calculated cumulatively with any other transactions between the same parties within twelve months from the date as at which the investment is planned to be realised. This means that a series of smaller transactions with the same investor may be aggregated and exceed the threshold.

Third, the Cypriot company operates in a sector of strategic importance, as defined in the Law.

An important exception to the €2,000,000 threshold

The Law sets out two participation thresholds of particular significance: 25% and 50%. When a transaction raises an existing investor's shareholding and/or voting rights, from below than 25% to 25% or more, OR from below 50% to 50% or more the notification obligation is triggered automatically, even if the value of the transaction is below €2.000.000,00.

This has practical significance for companies that already have non-EU, EEA or Swiss investors and are planning a new funding round. An investor holding, for instance, 20% of the Cypriot company's share capital, who increases their stake to 26% crosses the first threshold. An investor holding 40% who increases their stake to 51% crosses the second. In both cases the notification obligation applies automatically, regardless of the amount invested to make that transition.

Who is considered a foreign investor in practice

Under Article 3(6) of the Law, control is assessed not only by reference to who signs the agreement, but by who stands behind it. A company incorporated in the EU but controlled by a non-EU, EEA or Swiss natural or legal person, or whose ultimate beneficial owner is a foreign investor, is subject to the same obligations.



The use of an intermediate European company does not change the picture if effective control remains in non-EU, EEA or Swiss hands.

The discretionary power of the Ministry

Even an investment that does not meet the above conditions does not automatically fall outside the scope of the Law. The Ministry retains discretionary authority to review any transaction if it considers that it may affect national security or public order. This power is exercised within 15 months of the completion of the investment.

Where the investment was subject to mandatory notification but was not notified, this power may be exercised within five years from the date the investment was made.

What "Foreign Direct Investment" of Strategic Importance" Means

This is the concept that in practice is likely to generate the greatest uncertainty, at least in the early years of the Law's application.

A "*Foreign Direct Investment of strategic importance*" means any company operating in particularly sensitive sectors, as defined in the Annex to the Law. The list is extensive. It includes energy, transport, irrigation, health, education, communications, data processing and storage, aerospace, financial services, defence, media, and also land and immovable properties of decisive importance for the facilitation of these sectors. It also covers critical technologies, including among others artificial intelligence, semiconductors, cybersecurity, robotics, and biotechnologies, as well as any company with access to or control over sensitive personal data or critical raw materials.

This list is not exhaustive. And that is the point that requires particular attention. The question is not whether a company formally belongs to one of these sectors, but whether its activities, as they operate in practice, fall within the concepts of the Law. For most technology companies based in Cyprus, an objective



assessment is that this is usually the case. In case of doubt, the safer assumption is that they fall within scope.

The Screening Process

Once the Ministry receives a fully completed notification, a two-stage process begins.

First stage: Preliminary screening

Within 20 working days, the Ministry decides whether the investment is subject to further review. Before deciding, it is required to consult an Advisory Committee composed of representatives from six Ministries. If it considers that the investment does not warrant review, it informs the investor within 5 working days and the process is concluded.

The 20-day period is suspended if supplementary information is requested from the investor. This means that the actual time may be significantly longer than what appears in the text of the Law.

Second stage: Substantive review

If the Ministry considers that the investment warrants review, it informs the investor within 5 working days and commences a substantive review. Within 65 working days it decides whether the investment affects national security or public order (Article 5(4)(a) of the Law). Again, if additional information is requested, the deadline is suspended.

The outcome may be one of three: unconditional approval, approval subject to specific conditions and commitments, or prohibition and reversal of the investment.



What this means for transaction closing timelines

In the best-case scenario, without requests for supplementary information and without a substantive review, the process is completed in approximately one month. In a full review scenario, the overall timeline may reach four to five months or more. This time must be built into every transaction timeline from the moment of term sheet negotiation. An investor or company that discovers this obligation after signing faces delays that may affect the terms of the agreement, trigger term sheet provisions, or exhaust the counterparty's patience.

The role of the European Commission

The process is not exclusively a Cypriot matter. The Ministry is designated as Cyprus' national contact point within the European cooperation mechanism established by Regulation (EU) 2019/452. This means that for investments under review, the Ministry is required to notify the European Commission and other member states, which have the right to submit observations. An investment being reviewed in Cyprus may therefore attract the attention of other European authorities, particularly when the investor operates in multiple EU jurisdictions simultaneously.

What Happens if the Process is Not Followed

This is where the substance of the risk lies, and it is worth examining clearly.

The investment is automatically unlawful

Under Article 7 of the Law, if any natural or legal person connected with an investment that falls within the provisions of the Law fails to notify, that investment is automatically deemed to be in violation of this law. Two points merit particular attention.

First, the liability does not fall solely on the foreign investor. The Law refers to "any person connected" with the investment. This may include the founders of the



company, members of the board of directors, and those involved in managing the transaction.

Second, the Ministry is not obliged to intervene. The Law provides that it "may, when it considers that the circumstances so require" take measures. This means it has discretionary authority as to its response, but the risk remains open: it may prohibit, terminate, or reverse the investment whenever it considers the circumstances warrant it.

The contract produces no legal effect

Under Article 8 of the Law, any contract or agreement for which prior approval from the Ministry is required is automatically subject to a suspensive condition until that approval is obtained. In practice, this means the contract exists on paper but produces no legal effects until written approval is issued. Transfer of funds, issuance of shares, or any other action taken on the basis of such a contract takes place in a legal vacuum, as the contract itself has not yet acquired legal force.

This is the point that is often underestimated. The suspensive condition is not a formality. It is a substantive legal constraint affecting every act flowing from the transaction, from the moment of signing until approval is received. If approval is not granted, the contract remains in suspension and the Ministry retains the right to take the measures provided by the Law, including reversal of the investment.

The financial penalties

Beyond the nullity of the transaction, the Law provides for financial sanctions imposed on both the foreign investor and any person exercising direct or indirect control over the investment.

For failure to notify, the fine ranges from €5,000 to €50,000. For providing false or misleading information, the fine reaches up to €100,000. For failure to provide information that was requested, the fine reaches up to €50,000. For non-



compliance with a Ministry order, the fine reaches up to €100,000, plus an additional €8,000 for each day the breach continues.

The critical point here is that payment of a fine does not cure an unlawful transaction. The Ministry may impose a fine and simultaneously proceed with reversal or prohibition of the investment. The two measures are not mutually exclusive.

Judicial enforcement

Beyond administrative sanctions, Article 17 of the Law provides that when the Ministry identifies a breach or an imminent breach, it may apply to the Court for an injunction. The Court may issue prohibitory or mandatory orders, which might be interim or permanent. The order may direct the immediate cessation of the breach, the taking of corrective measures within a specified period, or any other action it deems necessary.

The practical significance of the Article 17(1) of the Law is threefold.

First, the word "imminent" means the Ministry does not need to wait for a breach to be completed before taking judicial action. It can intervene before the transaction is completed.

Second, the availability of an interim injunction means an investment can be frozen by court order immediately, before the case is heard on its merits. In transactions with tight timelines, this can be decisive.

Third, the order may dictate the future conduct of the person in breach. This means that judicial restraint is not limited to the specific transaction under review, but may extend to similar future actions by the same person.

Appeal Against Ministry Decisions

The decisions of the Ministry under the Law constitute administrative acts and are subject to appeal before the Administrative Court pursuant to Article 146 of the



Constitution. The deadline for filing an appeal is 75 days from the date of notification of the decision.

This means that an investor whose investment has been prohibited, or approved subject to conditions considered unjustified, has a formal judicial protection mechanism available.

Relevant in this context is the case law developed at European level. The Court of Justice of the European Union in *Xella Magyarország* (C-106/22, 13 July 2023) ruled that any national measure restricting an investment must be justified by a genuine and sufficiently serious threat to a fundamental interest of society. The risk to national security must be real and specific, not vague or economic in nature.

Although that ruling concerned a different scenario to the one governed by Cypriot Law, the principles it establishes remain instructive: decisions that are not supported by sufficiently substantiated security grounds are exposed to appeal.

A New Framework Without Precedent

Cyprus is among the last EU member states to introduce a national foreign investment screening mechanism. There is as yet no administrative practice, no guidelines have been issued by the Ministry, and there are no decisions in place defining how the Law's concepts will be interpreted in practice, in particular the concept of "strategic importance."

The experience of countries with more mature regimes is instructive. In the Netherlands, where a comparable mechanism has been in force since June 2023, notifications that appeared straightforward led to extended review processes. In Germany, each new funding round that changes shareholding percentages is reassessed separately, even if the original investor had already been approved. In France, companies with access to sensitive data fall within scope regardless of the "official" sector in which they operate.



The first cases reviewed in Cyprus will shape the interpretive framework for all those that follow. The absence of prior practice does not reduce the compliance obligation. On the contrary, it reinforces the need for timely legal assessment before any transaction.

Practical Next Steps

For companies and investors already in a fundraising phase or planning one, the steps to follow are clear.

First, assess whether the transaction meets the three cumulative conditions: the nationality of the investor, the participation threshold, and the strategic importance of the Foreign Direct Investment. In case of doubt about the third condition, the safer assumption is that the company falls within scope.

Second, build the notification timeline into the closing schedule before term sheet negotiations, not during them.

Third, ensure that legal counsel is familiar with the new framework. The notification file requires extensive documentation and its preparation takes time.

The Law enters into force on 2 April 2026. For transactions already in progress that have not yet been completed, the assessment must be carried out immediately.



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