



A guide to alternative investment funds in Cyprus

Fund Services

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Choosing Cyprus

Cyprus passed in July 2014 the Law on Alternative Investment Funds (AIFs). This enactment came as a swift response to the regulatory developments on an EU level in the funds and asset management industry, and achieved the strengthening of the funds regime in the country. The main changes introduced are in line with the latest EU Directives which give emphasis on investor protection and transparency rules, while the new framework modernized and expanded the legal and regulatory product toolbox available to asset managers and promoters of AIFs.

In addition to its new and comprehensive framework, Cyprus serves as a strong link for investments in and out of Europe and it has easy access to Eurasia / Russia and the CIS region, China, India and other emerging markets. As such, it provides distribution opportunities to a wide range of markets. Furthermore, as a regional and international business centre, it enjoys a number of additional comparative advantages such as:

International expertise

Cyprus has a strong network of financial and professional service providers who have highly skilled, educated and multilingual teams specialized in servicing the fund industry and today offer a wide range of customized services in fund and asset acquisition structuring, fund administration, custody, audit and other related services.

Advanced and attractive tax environment

Cyprus has one of the lowest corporate income tax rates in the EU and the Eurozone while being compliant with the EU Directives and OECD requirements. Fund management services offered to authorized funds are in principle exempted from VAT. Generally, Cyprus is considered to be a beneficial jurisdiction offering numerous and significant options for international tax planning, both at a corporate and individual level with an extensive Double Tax Treaty network with 54 countries.

Strong cooperation between sectors

Cyprus operates in a close working relationship between the business community and the Government, while the latter has a policy of openness for the various business players.

Continuous upgrading of the infrastructure in airports, ports and telecommunications, easy access from air and sea

Competitive, modern and transparent legal and regulatory framework

combined with the flexibility of a small jurisdiction; redomiciliation laws are in place as well as rigorous anti-money laundering laws and regulations which attribute to Cyprus the status of a fully FATF compliant jurisdiction. Cost of registration and operation extremely competitive when compared to other jurisdictions.





Legal framework

AIFs in Cyprus are governed by the Alternative Investment Funds Law 131(I)/2014 (“AIF Law”), which repealed the former legislative framework for investment funds in Cyprus, the International Collective Investment Schemes Law 47(I)/1999.

The AIF Law provides the legislative framework for the recognition, regulation and supervision of AIFs and to a certain extent the persons involved in the activities of AIFs such as directors, external managers and depositaries. It is further supplemented by directives on, among others, organization and reporting requirements, issued from time to time by the Cyprus Securities and Exchange Authority (CySEC), which is the competent regulatory and supervisory body.

Categories of AIFs

The AIF Law incorporates the following categories of alternative investment funds:

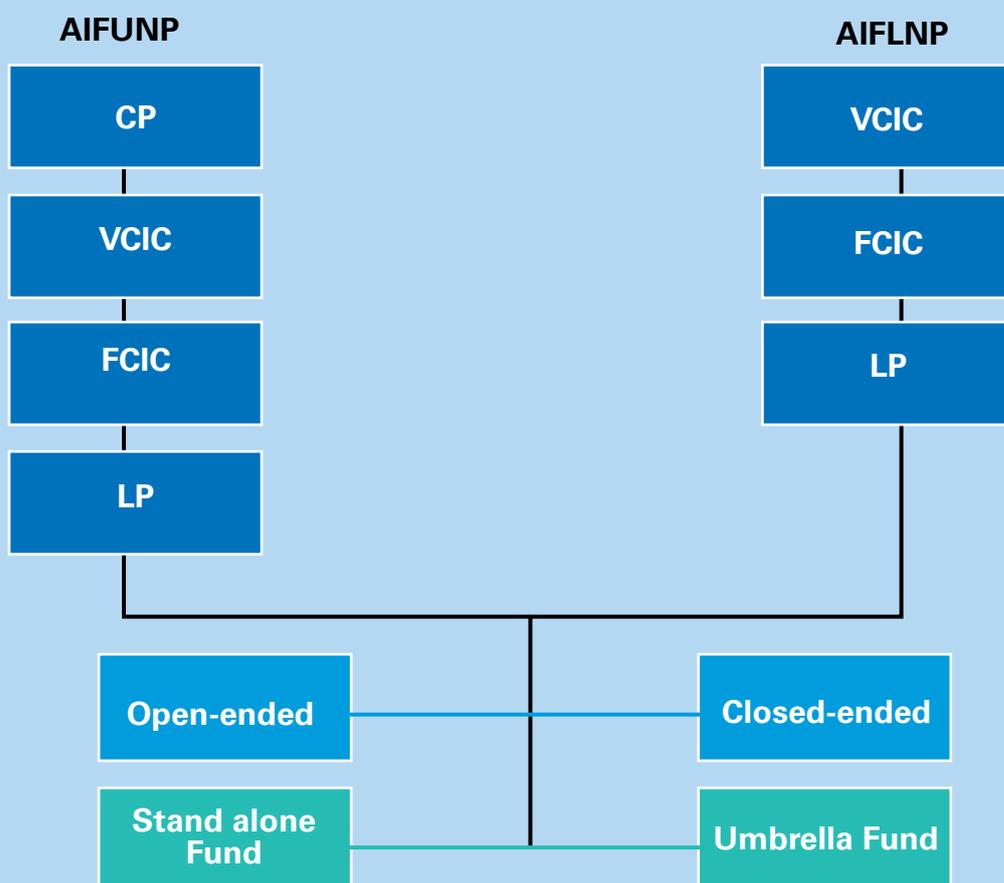
Alternative Investment Funds with limited number of persons (AIFLNP)	Alternative Investment Funds with unlimited number of persons (AIFUNP)
Number of investors limited to 75 and may only be marketed to "Professional" and/or "Well-Informed" investors.	May be marketed to either (i) "Professional" and/or "Well-Informed" or (ii) "Retail" investors.
Investor shares are transferable, except in cases where a transfer results in the number of investors > 75.	Investor shares are freely transferable based on any restrictions or procedures noted in the AIF's constitutional documentation.
May not be listed or traded but may be registered on a special registry kept with the Cyprus Stock Exchange. May obtain an ISIN.	May be listed or traded on a regulated market or MTF.
Not subject to investment restrictions (may invest in any asset such as real estate, equities, derivatives in any combination/ratios).	May be subject to investment restrictions for the purpose of risk spreading and ensuring liquidity (see further: "Investment restrictions and type of AIFs classifications").
No minimum share capital requirements.	Subject to minimum capital requirements.
Under certain circumstances the scheme is exempted from appointing a licensed manager or a depositary.	If externally managed, the manager needs to fulfil certain licensing requirements. Must appoint a depositary.
AuM must not exceed the AIFMD thresholds.	
Suitable for wealthy families / private clients.	

Legal forms

An AIF can take the form of an investment company with variable or fixed capital, a limited partnership or (only for AIFs with unlimited number of persons) a common fund.

An AIF will be open-ended in the event the investors are granted any redemption rights prior to the beginning of the liquidation period of the AIF. All other AIFs are defined as being closed-ended.

The AIF can be structured as a stand alone fund or a multiple compartment fund ("Umbrella Fund") which creates separate sub-funds (compartments) under the roof of a single legal entity. These sub-funds function as independent entities, each with, among other, its own investment policy and restrictions and distribution market.



Key persons



External Manager

- Management of the AIF's portfolio and of the risks associated with the operation of the AIF
- Administration and Marketing functions (usually delegated).

Administrator

- Administration, accounting, bookkeeping services
- Registrar services (i.e. processing of subscription and redemption requests)
- Calculating NAV.

Depository

Cash Monitoring

- Overview of all cash movements of the AIF
- Identification of significant cash flows
- Cash and capital reconciliations
- Monitoring of discrepancies and related corrective measures.

Safekeeping of Assets

- Custody
 - Record keeping
- depending on the type of assets.

Oversight Duties

- Subscriptions and redemptions
- Valuation of assets and shares/units
- Timely settlement of transactions
- Income distribution to investors
- Investment compliance.

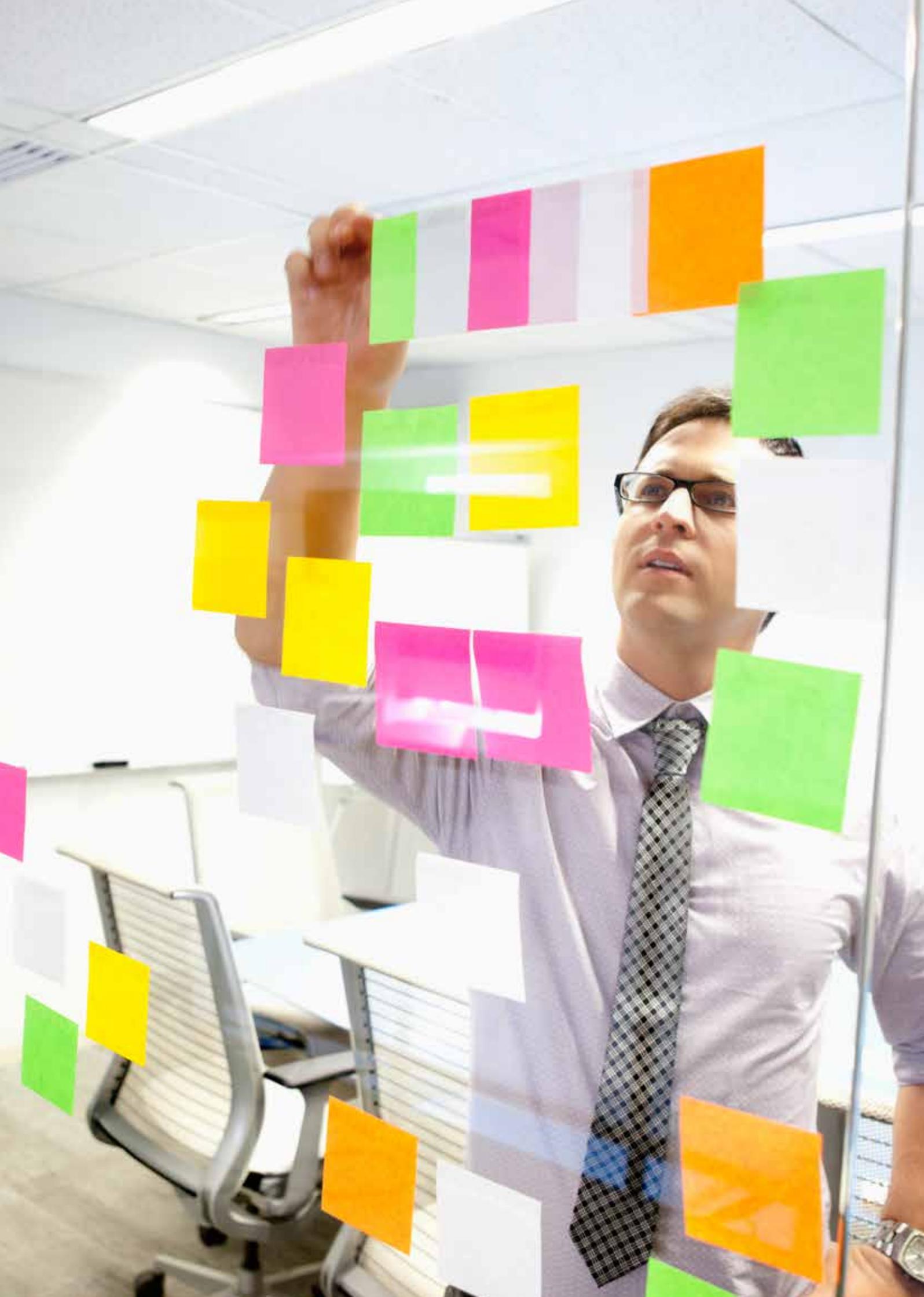
Investment restrictions and types of AIFs classifications

AIFs with limited number of persons are not subject to any investment restrictions except as these may be set out in the constitutional documents of such AIF.

Under the provisions of CySEC Directive 131-2014-03 regarding the classification of AIFs and other related issues, AIFs with unlimited number of persons may be subject to investment restrictions by reference to the category of investors to whom the AIF is marketed (i.e retail or WIPIs) and, where applicable, may fall within a classified type of AIF as per the below table:

Type of investor	Investment restrictions	Classified type of AIFs*
WIPIs (Well Informed Professional Investors)	<ul style="list-style-type: none"> Not subject to investment restrictions and diversification requirements except as these may be set out in the constitutional documents of the AIF or where the AIF falls under any one of the Classified type of AIFs. 	<ul style="list-style-type: none"> Master – Feeder Money Market Fund of funds Venture capital Loan Origination.
Retail	<ul style="list-style-type: none"> Subject to general requirements to observe the principle of risk spreading and to more specific restrictions where may fall under one of the Classified types of AIFs Only allowed to invest in one or more of the following assets: <ol style="list-style-type: none"> Transferable securities Money market instruments Units in collective investment undertakings Derivative instruments [under certain conditions] Cash deposits with credit institutions Real estate and real estate assets Mortgage related securities Collateralised debt obligation securities, up to 30% Commodities, up to 20% Foreign exchange, up to 20% May hold ancillary liquid assets Borrowings at any time shall not exceed 25% of the AIFs' net assets. 	<ul style="list-style-type: none"> Master – Feeder Money Market Capital/ Performance guarantee Capital protection Fund of funds Real estate Venture capital.

*where the AIF invests at least 60% of its assets in a relevant category of assets it shall be classified in one of the listed categories of AIFs according to the category of investors marketed to and as such will need to comply with specific requirements.





General Tax considerations

Taxation of the fund:

- Corporation tax at 12,5% on profits
- Excluded from tax:
 - Dividends received
 - Profits on sale of securities
 - Capital gains arising from sale of property abroad
 - Capital gains from sale of shares of foreign property companies
- Effectively only interest received is taxed at 12,5%
- No subscription tax on the net assets of the fund
- May be eligible for Notional Interest Deduction on new equity (i.e a deduction granted in respect of new equity issued and fully paid)
- May be exempted from VAT depending on its activities.

Fund managers – enjoy a 50% exemption of income earned for a ten-year period from date of first employment in Cyprus (if salary is over EUR100.000). Subject to conditions, fund management services to approved mutual funds and Alternative Investment Funds are exempt from VAT.

Taxation of the investors:

- Foreign investors:
 - No withholding tax on dividends
 - No taxation on redemption of units
 - No deemed distribution restrictions or taxes
- Resident investors:
 - A withholding tax of 17% if the investor is a Cyprus domiciled individual
 - No taxation on redemption of units
 - No withholding tax if investor is a company
 - Deemed distribution of 3% instead of 17%.



How can KPMG help?

Regulatory and Compliance Services

- Assistance in structuring and set-up
- Acting as promoter of the client's entire application and liaising with the Cyprus regulatory authorities, as necessary
- Assistance with drafting of constitutional documents and offering memorandum
- Design of corporate governance framework
- Assistance with re-domiciliation.

Audit and Regulatory Reporting Services

- Audit of statutory annual financial statements based on IFRS
- Compliant and regulatory reporting for clients
- Consultation on audit and accounting matters.

Direct and Indirect Tax Services

- Fund structuring and transaction analysis
- International tax planning and implementation of cross-border investments and transactions
- Preparation and submission of corporate tax returns
- VAT services in relation to fund providers and VAT compliance.

Advisory Services

- Internal audit, risk and compliance services
- Financial risk management
- Transactions and restructuring
- IT advisory
- Business performance services.

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