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Cyprus 2018 *Special Report*

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Positioning Cyprus funds on the world map

The Cyprus funds sector is one of the most dynamic sectors of the Cyprus economy. Since the foundation of the Cyprus Investment Funds Association (CIFA) in 2013, assets under management have more than doubled, from €2.1bn at the end of 2012 to €4.4bn as of March 2018, while the number of registered funds has leapt from just 74 to 123 in the same period. In addition, there are currently over 50 investment funds that are in the pipeline to be approved by the regulator, the Cyprus Securities and Exchange Commission (CySec).

Investors are attracted to Cyprus as a stable, European, business-friendly jurisdiction with a highly educated workforce at the crossroads of three continents. In the past few years, the economy has once again proven itself to be highly resilient to shocks, with real GDP growth rates of 3.9% in 2017 and 4% in the first quarter of 2018.

Cyprus has been a member of the European Union (EU) since 2004 and adopted the euro in 2008. For investors, EU and euro-area membership, combined with CIFA's membership in international organisations, means reassurance that they are operating within a rigorous legal framework that promotes transparency and protects investors. Among others, Cyprus implements the US Foreign Account Tax Compliance Act (Fatca) and was an early adopter of the Common Reporting Standard.

As a member of the commonwealth with a common-law legal framework, we are also seeing new opportunities arising out of Brexit for investors seeking an efficient tax and legal system and a highly competitive cost base. Our costs are very competitive, both for fund set-up and maintenance.

To stay one step ahead, CIFA, CySec and the Ministry of Finance continue to collaborate closely on enhancing the framework for funds in Cyprus. By the end of June 2018, parliament is expected to adopt a law that will allow the fast-tracking of Regulated Alternative Investment Funds (Raif). Another law due will give investors more clarity about the tax treatment of their funds. There will also be new laws on fund administrators and mini-managers, the latter allowing them to operate below current thresholds for Alternative Investment Fund (AIF) managers.

We are also very excited to announce that more than 30 funds are now listed on the Thomson Reuters funds platform, which is visible to more than 20,000 global asset managers and related professionals. We are also working to bring Cyprus funds directly onto Clearstream, the market leader in the settlement of market transactions and custody of securities.

As a vote of confidence to Cyprus, the European Fund and Asset Management Association (EFAMA), whose members collectively manage more than €23trn, selected Cyprus for the annual general meeting of the association which was completed successfully in June 2018.

We are confident that the aforementioned milestones will further enhance the already attractive framework for funds, putting Cyprus firmly on the world map as a highly competitive, white onshore jurisdiction, respecting all obligations of the EU and other international organisations.



Angelos Gregoriades
president of the Cyprus Investment Funds Association
(CIFA)

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GMM Investment Funds UCITS & AIFs



INVESTMENT IN UNITS OF THE UCITS HAS NO GUARANTEE RETURN AND PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RETURNS

Cyprus 2019

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Servicing a fund

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Q What is the role of the depositary and key responsibilities for AIFs?

A On 5 July 2013, Cyprus transposed the provisions of the EU Alternative Investment Fund Managers Directive (AIFMD) through the Alternative Investment Fund Managers Law, Law 56(I) of 2013 (AIFM Law) and introduced the Alternative Investment Funds Law, Law 131(I) of 2014 (AIF Law) which regulates AIFs.

The AIFM Law, in line with AIFMD, imposes general overriding obligations on the depositary, such as the duty to act honestly, fairly, professionally, independently and in the interest of the AIF and its investors.

For each AIF it manages, the AIFM must ensure that a single depositary is appointed, which must be evidenced by written contract between the depositary and the AIFM. The main functions of the depositary include cashflow monitoring, safe-keeping and oversight duties.

The cash monitoring function requires that cashflows are properly monitored and that payments made by investors for subscribing to the fund have been received and deposited in properly set-up cash accounts.



Marios Georgiades
Bank of Cyprus

Marios Georgiades is head of custody and trust at Bank of Cyprus. He has 20 years' experience in the financial services sector, and is a CFA Charterholder. He is currently responsible for the custody function of the bank for its wealth management services and is in charge of the depositary offering to AIFs and Ucits.

The safekeeping function concerns two types of assets: financial instruments that can be held in custody and other assets like private equity and real estate.

Financial instruments that can be held in custody are safeguarded by the depositary and registered in segregated financial instruments accounts opened in the depositary's books. For other assets, the depositary verifies the ownership of the AIF of such assets, and maintains an up-to-date record of those assets.

The oversight duties refer to the following tasks:

- monitoring the flow and process of subscriptions and redemptions
- verification as regards the valuation of shares of the AIF
- carrying out the instructions of the AIFM, unless they conflict with national law or AIF rules;
- timely settlement of transactions involving the assets of the AIF
- monitoring income distributions of the AIF

These duties are the same for AIFs being managed by a full-scope AIFM or a sub-threshold AIFM, with the difference that, for AIFs managed by sub-threshold AIFMs, the depositary may be located outside of Cyprus, whereas for full-scope AIFMs, the depositary must be located in Cyprus.

Another option for sub-threshold AIFMs is the AIF with limited number of persons (AIFLNP), which can have up to 75 investors and is addressed to professional and/or well-informed investors. This is subject to a lighter regime.

An AIFLNP may not appoint a depositary if it meets one of the following conditions:

- its total assets do not exceed €5m (\$5.9m)
- its instruments of incorporation limit the number of unit-holders to up to five persons throughout the duration of the AIFLNP
- its assets are not subject to custody

The depositary obligations when appointed for an AIFLNP are only the safekeeping duties, either for financial instruments that can be held in custody and/or for other assets.

Q How will the depositary duties change with the amendment of the AIF Law which will introduce the registered AIF?

A These AIFs will be registered but will not need to be authorised by the Cyprus Securities and Exchange Commission (CySEC), thus significantly improving speed to market. These will be marketed to professional and/or well-informed investors, and managed by a full scope AIFM. The duties of the depositary will therefore remain the same as for full scope managers.

However in the upcoming amendment of legislation regarding AIFLNP, one of the conditions that waives the obligation to appoint a depositary when its assets are not subject to custody is expected to change. The change would mean that AIFLNPs may not have to appoint a depositary, even if a percentage of their financial instruments are subject to custody under certain provisions.

Q What services does Bank of Cyprus offer the fund industry?

A Bank of Cyprus (the Bank) is the largest financial institution in Cyprus and has a long history in servicing the investment management business through its wealth and markets division.

The much-awarded wealth and markets division of the bank has more than 20 years' experience in private banking, institutional wealth management, brokerage and custody services. It provides its wide range of specialised, investment-related services to complement the bank's traditional banking services, in order to offer value-added solutions to the Bank's private high-net-worth and institutional client base, including funds and fund management companies.

The bank's services that cater to the fund industry include:

Depositary services: Bank of Cyprus is one of the local credit institutions offering depositary services to AIFs and Ucits. While historically offering global custody services for its clientele, for us to begin offering depositary services was a natural evolution as the Bank was already active in the business of safekeeping financial instruments

that could be held under custody.

The depositary services are offered through the custody and trust department within the wealth and markets division of the Bank. The Bank acts as depositary for a number of AIFs and Ucits funds, safeguarding the investments through global custodians. The Bank carefully reviews the profile of each AIF/Ucits it provides services to in order to understand its activities, specific needs and to apply a personalised service. This process results in an efficient process flow and exchange of information between the fund and the manager. The Bank is also continuously searching for alternative ways of automating flows and enhancing its systems to be able to handle more demanding funds and deliver greater value to its clients.

Bank of Cyprus is fully committed and ready to deliver quality services to AIFs that invest either in private equity or listed instruments

Execution services: Complementing the depositary service, the Bank offers execution services to AIFs and Ucits funds through its institutional wealth management team for listed instruments in global markets, as well as providing access to a large number of fund houses through a dedicated fund platform.

Licensing funds: The Bank offers services related to the setting up and licensing of AIFs, Ucits and AIFMs or Ucits managers in Cyprus. Through its wholly owned subsidiary, the Cyprus Investments and Securities Corporation (CISCO), it can provide advice and guidance on selecting the legal form, structure and fund characteristics based on clients' specific needs, assist with the incorporation/formation of the fund, the drafting of the prospectus, and the completion of all key investor information documents and all other relevant documents required to be submitted to CySEC. The Bank coordinates with all involved parties during the processing of the application with CySEC, up until the licence is granted.

Fund management and supporting services: The Bank is also active on the fund management front, through a 100% owned subsidiary – BOC Asset Management (BOCAM). BOCAM offers a variety of services including the management of Ucits funds, discretionary portfolio management and investment advice to institutional and high-net-worth clients in Cyprus. As a result of the increased interest in the AIF market in Cyprus, BOCAM is enhancing its service offering to be able to offer third-party funds services such as administration, risk management, accounting, distribution and regulatory compliance. By using such services, funds are potentially able to benefit from reduced operational expenses, improved efficiency of operations and the freeing up of resources to focus on the actual management of investments.

Q As regards depositary services, what is the first step when you onboard new clients? Do you tailor the functions they will require on a case-by-case basis?

A While the depositary duties are a commonly known and set by law, each fund is different in terms of their business, investment activity and profile. Even before onboarding, we engage in an in-depth analysis of the characteristics of the fund as we need to address the key areas and flows that will need our involvement. Understanding the frequency of transactions, the target asset classes and jurisdictions involved are essential parts to provide a customised service based on the funds' needs. We also review the service providers of the fund and their procedures and processes as they are parties with which we will be co-operating. It's important for us to establish a common understanding of the expectations one party has from the other. Each fund will have tailor-made processes in place as each is unique, and we have to look at each on a case-by-case basis.

Bank of Cyprus is fully committed and ready to deliver quality services to AIFs that invest either in private equity or listed instruments through a complete solution suite of depositary services and other complementary fund services. **HFM**



Cyprus alternative investment funds and fund management

Christos Vasiliou, of KPMG, reflects on the advantages Cyprus holds for a variety of fund managers

Q What are the latest developments in the funds industry and Cyprus economy?

A Over the past few years we have seen a strong level of collaboration between the Cypriot government, the regulator and the local stakeholders of the fund industry, all aiming to improve the offering within the financial services sector. Any new legislation will, prior to its introduction, have widespread input from the professional community. The increase in the number of AIFMs and other asset managers establishing physical presence on the island, as well as fund incorporations with a growth of the AuM of almost 68% since Q4 2016 (source: Central Bank of Cyprus, 2018), proves that the communities' efforts have been fruitful.

With the fund industry developing rapidly, it is inevitable that the number of AIFM providers has grown. Furthermore, in the last two years we have seen an increase in the number of third-party service providers, such as fund administrators and depositaries, who offer critical support to funds.

Cyprus continues to develop its fund industry in order to keep pace with global trends and



Christos Vasiliou
KPMG Cyprus

Christos Vasiliou joined KPMG Cyprus in 1994. He became a partner in 1999. He has been involved with the audit of large financial institutions including major banks, insurance companies and investment funds. In 2016 he was appointed as the deputy managing director of KPMG Cyprus.

developments. As a part of this, Cyprus continually promotes innovation in the country's regulatory and tax framework, in order to accommodate the evolving international environment.

Regarding some noteworthy economic indicators, according to the Statistical Service (CYSTAT), the GDP growth rate in real terms during the first quarter of 2018 is positive and estimated at +3.8%. In its spring forecast, the European Commission stated that Real GDP growth is expected to reach 3.6% in 2018 and then to moderate gradually to 3.3% by 2019.

Cyprus' general government accounts for January-March 2018 indicate that total revenue amounted to €1.8m (a 9.5% increase compared to the corresponding period in 2017), while total expenditure reached €1.5m (a 2% increase), resulting in a surplus of €297.3m as compared to a surplus of €166.3m in the same period in 2017.

According to Eurostat, unemployment in Cyprus stood at 8.6%, down from 9% in March 2018 and 11.7% in April 2017. This translates to the largest annual decrease of unemployment among the EU countries.

On 20 April 2018, Fitch upgraded its assessment of Cyprus to BB+ from BB with the rating agency saying the outlook was 'positive'. On 15 September, Standard & Poor's affirmed the BB+ rating of the Cypriot economy and revised the outlook of the long-term sovereign credit rating from stable to positive.

Q What changes to Cyprus's legal framework will affect Alternative Investments Funds?

A Speed to market is a key target especially important for fund managers. Departing from the concept of the AIF as a regulated, supervised product, the introduction of the Registered AIF (Raif) regime will enable managers to launch a fund product without having to go through the regulatory process with CySEC. The key requirement here will be the appointment of an authorised EU AIFM. It is worth pointing out that at a later stage the Raif can be converted into a regulated AIF, accommodating investors

requesting a regulated vehicle. It is important to note that the Raif may take all available legal forms and is permitted to invest in non-financial assets.

Furthermore, new structuring possibilities are provided for Limited Partnerships (LP) which may be set up with or without legal personality. The Cyprus LP, taking the best elements of the Anglo-Saxon LP, is a vehicle which may be used to support private equity investments. Where an AIF is set up as a closed-end LP which invests more than 70% in illiquid assets, an EU regulated manager, other than an AIFM, may be appointed as manager for such Raif.

Q How do you predict this will impact Cyprus funds and the industry overall?

A We note that there is a positive attitude from asset managers towards Cyprus as a new, robust and flexible fund/asset management jurisdiction.

The introduction of the Raif regime could be a game changer for Cyprus. The Raif has a lot of potential, in particular for AIFs investing in illiquid assets. For start-up managers who meet certain conditions, the Raif is a fast, efficient and cost-effective option.

It may prove that the Raif regime can expand at a rapid rate with the use of the hosting platforms and the delegated model for asset managers. Leveraging off established market providers, the platform provides a one-stop shop for all AIFMD requirements and is cost competitive vis-à-vis other options.

Equally important are the changes to the Limited Partnership vehicle for which certain types of investors express a preference for, due to its contractual flexibility, among other advantages.

Q What are the key benefits for fund managers who use Cyprus?

A Cyprus is not trying to compete with the offerings of other mature jurisdictions but views itself as a niche market, offering a different approach in an efficient manner to family offices and small asset managers, especially those in asset classes such as private equity

or real estate. Furthermore, portfolio management can be 'seconded' to a team based outside of Cyprus depending on the location of the assets, which adds flexibility to governance requirements.

The advantages of Cyprus include the strength of its regulatory environment, competitive structuring, lower running costs compared to other European centres and the overall quality of the offering from local services providers. Moreover, the regulator is approachable to industry participants. It is also worth noting that Cyprus' financial services infrastructure is fully compliant with EU and OECD standards.

There is a positive attitude from asset managers towards Cyprus as a new, robust and flexible fund/asset management jurisdiction

Cyprus has always had a large community of auditors, lawyers, administrators and bankers. The country is among the top three in Europe with the highest percentage of highly educated population (37.9% of the workforce holds a higher-education degree). Cyprus service providers are well-versed in structuring alternative investment funds, fund administration, risk management and other related areas.

Q What is the tax regime for fund managers and funds in Cyprus?

A Cyprus offers one of the most attractive tax regimes for funds in Europe; at the level of fund manager and investors, as well as at the level of the fund.

In terms of the taxation of fund managers and individuals working in the funds industry, it is worth highlighting the already introduced provisions that exempt non-domiciled fund managers from taxation of the investment income (dividends and interest) as well as the available 50% tax exception on their earned income, if they are remunerated more than €100,000 per year (subject to conditions). In the case of a corporate AIFM, taxation is levied

at the corporate income tax rate of 12.5% on net profits, following the deduction of allowable expenses. In general, investment management services (including administration and marketing) provided to funds established in Cyprus, are exempt from VAT.

At the level of the fund, gains from buying and selling securities are exempt from Cyprus tax, as well as gains from the trading of real estate situated abroad (however, tax implications may arise from the trading of Cyprus-situated real estate and the accrual of interest income). The overall tax base may be reduced through the notional interest deduction mechanism, offering a deduction in respect of new equity introduced into the fund through the subscription of shares (in respect of corporate funds), thus reducing the effective tax rate to as low as 2.5%.

Cyprus is considering enhancing its tax framework for funds further, by introducing carried interest taxation at a rate of 8% for individuals working in fund management and categorising Islamic fund instruments as securities exempted from tax on any gains realised.

Q What would you like to see in the next five years in the local fund industry?

A By leveraging more on the special elements of the jurisdiction, Cyprus should achieve growth and win significant market share.

There are major initiatives from the regulator, aiming to increase the efficiency of the licensing process which we support and expect to play a significant role on the growth of numbers.

As the sector evolves, more needs to be done through universities and other academic and private institutions, in order to raise awareness and promote careers within the fund sector, support the recruiting needs of the Cyprus funds sector and develop skills beyond those available in other potential domiciles.

Finally, we embrace regulatory and technological innovation which will continue to make Cyprus a more cost-effective option and help the jurisdiction to establish itself as a modern fund and fund management destination. **HFM**



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What CIFA can do for you

Marios Tannousis, of CIFA, details what CIFA has been doing to further enhance Cyprus as a funds jurisdiction

Investors looking to take advantage of the highly attractive framework for funds in Cyprus need look no further than CIFA for a dedicated service. Established in 2013 as an initiative of the Cyprus Investment Promotion Agency (Invest Cyprus), CIFA supports investors and asset managers in setting up and structuring funds, facilitating investors throughout the set-up process and beyond. For example, CIFA supports investors in cross-border distribution by assisting them in publicising funds through Invest Cyprus, which promotes investments in Cyprus across all sectors worldwide.

In addition to supporting investors directly, CIFA focuses on enhancing the high level of sophistication of the investment funds sector and addressing the broad range of needs and issues faced by service providers and businesses involved in the sector.

CIFA's mission has four key pillars:

- helping CIFA members capitalise on industry trends
- shaping regulation
- enhancing professionalism, integrity and quality
- promoting the Cyprus investment funds industry

To realise its mission, CIFA has established no fewer than 13 technical committees comprising highly experienced industry professionals. These professionals follow developments at a local and international level, analyse the implications, and discuss the challenges and opportunities of these developments for the funds sector. They then recommend best policy options and courses of action, including helping to shape national regulation and legislation.

The 13 committees are as follows:

- AIF committee



Marios Tannousis
CIFA

Marios Tannousis holds the post of deputy director general at the Cyprus Investment Promotion Agency (CIPA). He has more than twenty years of international corporate experience, with twelve years in the international banking and financial services group Société Générale, where he served at various key posts.

- AML committee
- Ethics & risk management committee
- Fintech committee
- Fund administration & custodian services committee
- Funds distribution committee
- Fund and asset management committee
- Legal & regulatory committee
- Statistics & fund research committee
- Taxation committee
- Training & HR committee
- Ucits committee
- Wealth management committee

The meticulous work of committees allows Cyprus to remain at the forefront of related issues internationally, while continuously expanding and updating its product offerings to meet market needs.

Capitalising on industry trends

As regards CIFA's first pillar, to help CIFA members capitalise on industry trends, one of CIFA's first initiatives was to join EFAMA, the representative association of the investment fund and asset management industry in Europe. CIFA was granted observer status in June 2014. After completing two years in observer status and a rigorous assessment of Cyprus' fund management framework, CIFA was awarded formal membership in June 2016.

This achievement marked a significant milestone in CIFA's work in promoting the Cyprus funds industry globally. It provided a vote of confidence in Cyprus as a fund and asset management centre, by

acknowledging the sector's ability to adopt changing legislative requirements and provide future growth for the Cypriot economy. In June 2018, CIFA hosted EFAMA's annual general meeting in Limassol, Cyprus.

CIFA also became an associate member of the International Capital Markets Association (ICMA) in December 2016 and signed a memorandum of understanding (MoU) with The Chartered Institute for Securities & Investment (CISI) in November 2017. More broadly, Cyprus has bilateral memorandums of understanding with 19 regulatory authorities for the exchange of information, with 47 supervisory authorities outside the EU for enhanced supervision of alternative investment fund managers. It is also a full signatory of the IOSCO and Esma Multilateral MoU.

Shaping regulation

In implementing its second pillar, CIFA is active in helping shape evolving regulation, in particular through the legal and regulatory committee.

CIFA and the Cypriot regulatory authorities have worked persistently to bring the funds and asset management framework on par with other international jurisdictions. These efforts include the enactment of the Alternative Investment Funds (AIF) Law in July 2014, which replaced in its entirety the ICIS Law. ICIS wishing to continue operations in Cyprus under the new law converted to AIFs.

The 2014 AIF law is set to see another upgrade in 2018, which will introduce new aspects to enhance the attractiveness of the existing framework – such as the introduction of a limited partnership (LP) with legal personality to allow for internally managed LPs, the introduction of a de minimis asset management

regime for managers below AIFM thresholds and an unregulated AIF regime under strict conditions. These improvements will create all the necessary preconditions for growing the collective investment sector, which is expected to contribute significantly to the economy and spark a surge in the number of funds.

Cyprus also transposed the Ucits IV Directive in 2012, Ucits V in 2016, and the Alternative Investment Funds Managers Directive (AIFMD) in 2013, becoming the third country in Europe to transpose the latter. The island offers a European passport to the fund management industry, providing exceptional possibilities for cross-border and global fund distribution. This is bringing more business to the country and attracts EU and non-EU firms keen to gain the badge of an 'EU-compliant' manager and access to European investors.

With five new regulatory initiatives, the island is well-placed to attract new business from the EU and beyond, as a regional hub and as a base for non-EU investors to enter the EU. Thanks to continuous input from CIFA, the AIF laws of Cyprus provide for a framework that is as competitive as those of Europe's main investment fund jurisdictions, while also offering these opportunities at competitive costs.

Enhancing professionalism, integrity and quality

The financial services sector globally is subject to fast-changing regulation with an increased focus on professionalism, integrity and transparency. Implementing CIFA's second pillar is achieved primarily through the AML, ethics and risk management, and training and human resources committees.

The human resources committee monitors and shares information on local and international standards and best practices on training in the funds sector and identifies training gaps for investment fund professionals in Cyprus. Having identified such needs, it supports and promotes the development of training programmes tailored to CIFA's membership.

The committee also makes recommendations on the content of standardised training programmes that



are developed in cooperation with partners from the industry, from universities and other training institutes. CIFA's aforementioned MoU with CISI is a significant step forward in this regard, as it focuses on collaboration and capacity building so members can sharpen their skills with international best practices.

CIFA focuses on enhancing the high level of sophistication of the investment funds sector

Promoting the Cyprus investment fund industry

Last but not least, CIFA is at the forefront of promoting Cyprus at home and abroad as a highly competitive location for the global investment funds industry. CIFA organises the popular annual international funds summit with the support of EFAMA, ICMA, CISI and Invest Cyprus. Now in its fourth year, the international funds summit hosts prominent experts from abroad as speakers and attracts more than 500 participants.

CIFA, in collaboration with Invest Cyprus, also participates as sponsor to international fund forums in key cities across the globe, such as London, Paris, Berlin, New York, Dubai and Shanghai. It also organises

targeted roadshows to promote the Cyprus fund industry in selected cities and markets.

Through our efforts, CIFA has successfully urged the government to include the funds sector in Cyprus' national action plan for growth, giving a measure of how effective our efforts have been so far.

Indeed, the funds sector is a natural complement to the many efforts already under way to diversify the Cypriot economy in areas such as shipping, energy, including renewables, high-quality medical tourism, technology and higher education.

CIFA is working diligently with the government and CySEC to bring the country on par with other top fund jurisdictions. The growing number of applications underscores that this hard work is being rewarded, with increasing interest and appetite from investors and fund service providers looking for EU-regulated jurisdictions.

CIFA remains at the disposal of investors to facilitate registration and management of investment funds, while Invest Cyprus is available for facilitating investments more generally across all economic sectors in Cyprus. HFM

For more information on CIFA, Invest Cyprus and what we can do for you, visit www.investcyprus.org.cy and www.cifacyprus.org



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The rise of Cyprus

Alexios Kartalis, of Global MM, details the advantages of Cyprus as a funds destination

The investment funds sector in Cyprus is constantly growing. Clear evidence of this can be seen in the statistics regarding the number of funds established in Cyprus; incredible progress has been made within the last 3-4 years.

Below are some of Cyprus's key advantages:

- EU member state compliant with EU laws and regulations
- Strategic location
- Mature business centre with highly qualified professionals
- Extensive range of legal, accounting and financial services
- Cost-effective set-up process and ongoing management of funds
- EU and OECD approved tax regime
- Extensive network of double tax treaties allowing efficient structuring
- Fully harmonised and modern funds legislation
- Listing opportunities on the Cyprus Stock Exchange or other recognised markets

In 2013, there was no activity in this sector in Cyprus. No Ucits managers were active in Cyprus. In 2018, a number of firms are being activated in the industry and there is a degree of momentum in the market. More and more now talk about Ucits, and they understand that they are a helpful investment tool, and accessible to a large number of people who do not have to be sophisticated investors.

Regarding Alternative Investment Funds (AIFs), people were more familiar with these instruments, due to the prior existence of the "International Collective Investment



Alexios Kartalis
Global MM

A. Kartalis graduated from the Department of Statistics of Athens University of Economics and Business and he holds an MBA in Finance from ESCM. He started his career from Citibank Athens, and from 1997 until 2012 he worked at BNP Paribas Securities Services Athens. Since September 2013 he has been the general manager at GMM Global Money Managers Ltd, a Cypriot mutual funds management company.

Schemes". Cyprus has recently been seeing increased interest in this area too.

The advantage of investing in AIFs and Ucits in Cyprus

The regulatory frameworks of Cyprus Ucits and AIFs are fully in line with those in the EU as Cyprus has incorporated all of the directives that have been adapted by the European Parliament.

There is also a strong will from the authorities in Cyprus to promote this sector and help the country emerge as a prominent destination for funds.

A key issue for growing the industry lies in adapting to changes in the regulatory framework. The new AIF law is on its way to being voted on in parliament and we expect a vote relating to "mini-managers" and another for fund administrators. The new AIF law includes provisions for a new type of fund called the Registered Alternative Investment Fund (Raif).

This fund type will not be licenced and supervised by the Cyprus Securities and Exchange Commission (CySec) and that will mean a faster set-up period. The regulator will supervise these funds in collaboration with the fund's manager.

A Ucits fund may be set up in one of the following legal forms:

- as a common fund (CF)
- as a variable capital investment company (VCIC)

Setting up a Ucits fund in Cyprus is relatively quick and cost-efficient

compared with other European jurisdictions. The recurring costs of a fund for regulatory and operational purposes are very competitive in the country.

Regarding AIFs, in Cyprus they may be set up in one of the following legal forms:

- as a mutual fund
- as a fixed capital company
- as a variable capital company
- as a limited liability partnership

Investors can also opt for an Alternative Investment Fund with Limited Number of Persons (AIFLNP). This is an AIF in which the amount of investors cannot exceed 75.

The advantages of Ucits

Ucits mutual funds are internationally considered as one of the most effective asset management tools available, thanks to their low investment risk and high level of investor protection.

Some of the key benefits are as follows:

- Investors professional wealth management
- Institutional security or high protection
- Access to international markets (money and capital markets)
- Wide range of options to cover all investor profiles
- Risk reduction through investment diversification
- Comparatively low costs
- Immediate liquidity
- Full transparency of information/daily publication of M/F prices
- Exemption from tax on the amount invested to the M/F, as well as on the capital gains from the disposal of units of the fund

- Exemption from tax on profits earned by the M/F from sale of shares or other instruments, as well as from dividends received by companies in which the fund has invested

The advantages of AIFLNP

The advantage of choosing an AIFLNP are as follows:

- AIFLNPs can only be sold to professional or/and well-informed investors (minimum invested capital €125,000)
- Investors should, at all times, total a maximum of 75
- Free transfer of units/shares of the AIFLNP
- The AIFLNP has no minimum share capital
- The AIFLNP has no investment restrictions
- The AIFLNP can be set up with multiple investment compartments
- The AIFLNPs can invest in the following type of assets:
 - Stocks and debt instruments of non-listed companies (European and off shore)
 - Transferable securities (stocks, bonds) and money markets instruments
 - Real estate
 - Vessels
 - Other alternative investments (pieces of art, commodities, other AIF units)

The GMM advantage

Established in 2013, GMM Global Money Managers Ltd was the first active Ucits management company in Cyprus, and the firm is also licensed to manage AIFs and AIFLNPs.

Currently, GMM manages 19 Ucits mutual funds of all main categories and asset classes (bond, balanced, equity). Among them, GMM offers a specific mutual fund that invests solely in the Cypriot bond market. This is a GMM Cyprus Assets Bond Fund, and is suitable for retail or institutional portfolios.

GMM is already managing seven AIFLNPs, and can offer a variety of different structures. According to the type of investment, new investment compartments, or standalone AIFLNPs can be set up in order to make use of all the benefits of the structure either for tax planning,



Ucits mutual funds are internationally considered as one of the most effective asset management tools available

investment purposes, or for property management purposes.

GMM, with its experienced and well-trained executives, offers a wide range of services with the ambition to offer our clients a one-stop service for all type of investment funds (Ucits and AIFLNPs) so that we can facilitate, accelerate and simplify the procedures for setting up, licensing and running these investment funds. Our services include:

- Support during the setting up and licensing procedure of the fund
- Preparation of the fund's regulatory documents
- Preparation and/or review of the investment policy of the fund – (fund management)
- Definition and monitoring of the risk limits of the fund (risk management)
- Compliance services of the fund
- Internal control services of the fund
- Appointment of other service

providers (for example an accountant, lawyer or auditor)

In addition, GMM clients could also benefit from setting up “white label” funds. GMM already operates a good number of such vehicles.

The advantages of white label Ucits funds include the following:

- Quick and easy licensing/authorisation process
- Low management fees and transaction costs
- Ucits/AIFs with reference in any major currency
- Possibility to make contribution in kind.
- Utilisation of the special characteristics of institutional investors (participation in public offerings, opening of accounts in any country)
- The units can be transferred/contributed in the majority of private banking accounts
- Ability to add co-owners in the investors' registry (i.e. husband/wife/children)
- Units of Ucits/AIFs, are freely transferable to other physical or legal persons.

We feel that the fund sector in Cyprus has great potential and we at GMM are here to support that. **HFM**

An aerial photograph of London, featuring The Shard skyscraper prominently on the right. A gold line chart, resembling a stock market index, is overlaid on the image, starting from the left and trending upwards towards the top right corner. The background shows a dense urban landscape with various buildings and the River Thames.

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Management of small- to mid-sized offshore funds in Cyprus

Aki Corsoni-Husain and Elina Mantrali, of Harneys Cyprus, outlines why Cyprus is an optimal domicile for small- to mid-sized funds to conduct business within

Following certain tectonic shifts in EU law regulation, implemented locally as of 2018, Cyprus is now an ideal location for regional fund managers to set up shop quickly and cost-effectively to manage small- to mid-sized offshore funds, such as those domiciled in the Cayman Islands and the British Virgin Islands (BVI). This has been made possible through the creation of certain safe-harbours to local securities and funds laws: managers of small- to mid-sized, 'sub-threshold', offshore funds can become established in Cyprus with minimal regulatory or licensing requirements while acting in full compliance with the local alternative investment fund management regime.

In this article, we provide further details about the relevant regimes and safe-harbours which may apply to such start-up businesses. We also make reference to tax, residency and location benefits evident in Cyprus and, bearing in mind the ever-increasing importance of demonstrating real substance, argue that Cyprus now has the perfect business-friendly mix for regional managers to relocate and establish their firms.

Implementation of European directives in Cyprus

As an EU member state, Cyprus implements EU single market directives. As relevant to fund management, the Alternative Investment Fund Managers Directive 2011/61/EU (AIFMD) and the Markets in Financial Instruments Directive 2014/65/EU (MiFid II) are in full effect locally; the former under the Alternative Investment Fund Managers Law 2013 (AIFM Law) and the latter as the



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Harneys

Aki Corsoni is head of regulatory within Harneys' global tax and regulatory team. He specialises in all aspects of contentious and non-contentious financial services, anti-money laundering, economic sanctions and information exchange law covering the BVI and the EU. Corsoni advises governmental authorities on the regimes underpinning global fintech initiatives, as well as numerous blue chip credit institutions and top tier global law firms.



Elina Mantrali
Harneys

Elina Mantrali is a member of Harneys' Tax and Regulatory practice group within the Cyprus office. She regularly advises clients on regimes governing banks, investment funds, investment firms, securitisation structures, payment services providers and fiduciaries. She specialises in contentious and non-contentious financial services law and regulation.

Investment Services and Activities and Regulated Markets Law 2017 (IS Law).

Further, it is generally Cyprus public policy that EU directives be implemented in Cyprus without any gold-plating. The AIFM law and the IS law therefore take a 'copy-paste' approach to implementation.

Small- to mid-sized funds

The core licensing and regulatory obligations within the AIFMD are mandatory in respect of managers of larger funds. However, managers of smaller sub-threshold funds essentially fall outside of the licensing obligations at EU level within the AIFMD.

For these purposes, the relevant threshold for the manager would be the aggregate of the assets under management (AuM) in all funds managed by it:

- for managers managing only unleveraged funds with a lock-up period of five years, (i.e. unleveraged closed-ended funds) the AuM in aggregate should not exceed €500m
- for all other funds, open-ended or redeemable, the AuM should not exceed €100m.

It is for the manager itself to determine whether it is above or below the AIFM law thresholds specified above. If 'below threshold' then the manager is not subject to mandatory licensing under the AIFM law. These managers are instead subject to a simple registration regime – they would simply notify CySEC of information on:

- their identities and the identities of the funds they manage
- the investment strategies they pursue through their funds
- the main instruments in which they trade
- the main exposures and most important concentrations they have.

There is no need for CySEC to approve the manager or seek to licence them under this process; it is a simple notification procedure. That said, in practice, where the manager intends to manage a Cyprus-based fund, i.e. an alternative investment fund (Cyprus AIF) under the AIF law, CySEC will need to licence the Cyprus AIF and, as part of this licensing exercise, will expect the manager to have sufficient experience and qualifications to manage the Cyprus AIF being licensed. However, no such oversight or regulation would apply in respect of a manager managing an offshore fund.

Clarifications after Mifid II

Prior to 3 January 2018, the above arrangement would, despite the liberal treatment under the AIFMD regime and the AIFM law, fall foul of managed account (portfolio management) regulations contained in the securities regime in Cyprus. This was the regime provided for under the Investment Services and



Activities and Regulated Markets Law 2007, which implemented the predecessor of Mifid II, the original Markets in Financial Instruments Directive of 2004 (Mifid I).

Mifid II, and with it the IS Law, as of 3 January 2018, has clarified that the licensing requirement generally incumbent on portfolio managers of managed accounts will not apply to “collective investment undertakings and pension funds ... and the depositaries and managers of such undertakings”.

Requirements in the offshore jurisdiction

It should not be forgotten that where an offshore (Cayman or BVI) fund is established, then there will almost certainly be a requirement for the manager of the fund to be regulated, or else have some special status under the offshore regime:

- in Cayman, this is typically satisfied through the establishment of what is known as an ‘excluded manager’ under the Cayman Securities Investment Business Law – this entity is not regulated but instead subject to a registration regime with the Cayman Islands Monetary Authority
- in BVI, by contrast, this is typically

satisfied through establishing an ‘approved manager’ who is regulated, albeit in a ‘light touch’ way, by the BVI Financial Services Commission.

Cyprus now has the perfect business-friendly mix for regional managers to relocate and establish their firms

Determining which type of manager above is the correct one will depend on the specific needs of the manager on a case-by-case basis.

Requirements for substance

Following initiatives including the US Foreign Account Tax and Compliance Act (Fatca), the OECD’s Common Reporting Standard (CRS), the Base Erosion and Profit Shifting programme (Beps) as well as near universality of tax rules in advanced economies dealing with controlled foreign companies (CFCs) – it has never been more fundamental for managers to show real substance in the jurisdictions in which they are domiciled.

Establishing Cyprus management companies, or even better, offshore companies registered as foreign branches in Cyprus, with real on-the-ground substance through the relocation of individual fund managers to the jurisdiction offers a practical and workable way of ensuring full and transparent compliance with the international initiatives referred to in the preceding paragraph, while at the same time enabling small- and mid-sized fund managers to start business in a convenient and cost-effective way.

In addition, the immigration and tax regime for fund managers has been optimised so that:

- a resident non-domiciled tax regime will exempt virtually all of the overseas income of a fund manager relocating to Cyprus from local taxation
- residency and citizenship are easily obtainable for EU and non-EU persons relocating.

The recent changes in regulation and international tax transparency initiatives has led to an ‘alignment of the planets’, in our view, rendering Cyprus an optimal location for fund managers to base their real business activities and physical footprint. **HFM**



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Fund administration in Cyprus

Alkis Kailos, of Alter Domus, reflects on the fund and administration services the firm provides within Cyprus

Q What fund and administrative services do Alter Domus provide?

A Alter Domus is a fully integrated provider of fund and corporate services, dedicated to servicing international private equity and infrastructure houses, real-estate firms, private debt managers, multinationals, capital markets issuers and private clients. Our vertically integrated approach offers tailor-made administration solutions across the entire value chain of investment structures, from the fund level down to local Special Purpose Vehicles (SPVs).

Founded in Luxembourg in 2003, Alter Domus has continually expanded its global service offering and today counts 39 offices and desks across five continents. This international network enables clients to benefit globally from the expertise of more than 1,800 experienced professionals active in fund administration, corporate secretarial, accounting, consolidation, tax and legal compliance, depository services and debt administration services.

Our Cyprus office was established in 2008 and has since experienced continuous and steady growth in revenues, number of clients and employees. Our fund administration service offering in Cyprus includes assisting with fund set-up, transfer agency, NAV determination and bookkeeping, investor communication, regulator communication, and assistance with statutory and statistical reporting. Overall we offer a full range of middle- and back-office fund administration services from set-up stage to the liquidation of a fund. Alter Domus maintains a local, fully staffed and supported



Alkis Kailos
Alter Domus Cyprus

Alkis Kailos is director and country executive at Alter Domus Cyprus. Before joining Alter Domus, he was the audit partner of Ecovis KLA Partners (audit and business partners) Ltd, and prior to that was as audit director with Deloitte Cyprus. His academic credentials include a BSc in economics with a major in accounting. He is also a fellow member of the Institute of Chartered Accountants in Australia and New Zealand.

team of professionals servicing fund clients directly through the Cyprus office, while following the quality standards, group policies, practices and procedures of Alter Domus internationally.

Following the acquisition of Luxembourg Fund Partners, Alter Domus is now able to offer third-party Alternative Investment Fund Manager (AIFM) services and therefore continues to develop its vertically integrated range of services for the alternative funds market.

The group is further capable of offering depository services in licensed jurisdictions as a non-financial institution. We expect this segment to continue developing in the coming years.

Q What do you hope to offer in 2018 and beyond?

A Alter Domus has experienced significant growth in recent years with acquisitions in the United States and the set-up of offices in Europe, Asia and Australia. Through our latest acquisition of Cortland Capital Markets LLC, headquartered in Chicago, we have, aside from expanding our fund administration coverage to the United States, significantly expanded our knowledge within service areas we were not previously involved with. Such areas include commercial loan servicing solutions to banks, credit unions, non-bank commercial lenders and

credit funds, securitisation services, syndicated bank loan, leveraged loan and middle-market loan services, escrow services among others.

We do not rule out further location expansion plans as it is our goal to be present wherever our clients want us to be.

Q What are the current trends in the Cyprus fund market – what have you been experiencing recently?

A The most notable and growing trend we see at the moment in our target market comes from the shipping industry, which is looking at alternative methods of financing. The shipping industry is currently experiencing growth after many years of decline and the market conditions are ideal for fleet expansion as the bulkier prices remain low. At the same time, however, most banks are hesitant to finance shipping companies, especially small- and medium-sized ones, due to significant financial losses suffered when the economic crisis struck in 2008/2009.

As a result, shipping companies seek other potential sources of finance and many of them identify Alternative Investment Funds (AIFs) as a potential solution. Cyprus, with its historic reputation as a world-class shipping hub, is currently considered a maritime centre with more than 1,000 ships flying the Cyprus flag. The shipping industry received a further boost in 2010 with the introduction of the Tonnage Tax System. The modernisation of Cyprus's fund legislation, which is amenable to new fund managers, provides low AuM funds and has a strong track record, all serve to heighten the appeal of choosing Cyprus as a domicile.



The most notable and growing trend we see at the moment in our target market comes from the shipping industry

Overall it comes as no surprise that many shipping companies are currently choosing Cyprus as a jurisdiction for the launch of their funds. It is of course a challenge for such companies to start operating through the use of an investment fund, which is something completely new for many of them. This is where Alter Domus comes in. We work to help bridge the initial knowledge gap by offering our experience and knowledge of established practices, policies and procedures. If necessary, we are also able to appoint our own AIFM on a given structure.

Q Has Brexit had any impact on Cyprus business?

A Currently uncertainty remains as to the exact impact Brexit will have on the industry in the UK, as well as how UK-issued licences will be treated in the EU. As a result, there are many questions being received and addressed by organisations looking for their plan B in a worst case scenario.

Nevertheless, Brexit has already served to increase interest in Cyprus as a domicile. Cyprus, being a common law European onshore jurisdiction, is turning out to be one of the main locations UK-based fund managers are considering in their efforts to relocate their vehicles to onshore jurisdictions and if they are to continue to enjoy the benefits of European passporting. This is noticeable at the moment and has been for the last 12 months.

Q What other factors will affect Cyprus in 2018 and how is Alter Domus positioned to guide its clients?

A At the moment we are expecting the enactment of the latest legislation updates which will further modernise Cyprus as a funds jurisdiction. We remain hopeful that these changes will add further reasons as to why asset managers should be choosing Cyprus as the place for their Alternative Investment Fund and fund manager.

In the current economic climate, the general legal and compliance environment is very fluid. As such, new legislation continues being introduced at a rapid rate, and we expect this to continue within Europe.

Currently the only international fund administrator in Cyprus with a fund administration team based locally, and being one of the leaders in the local market, Alter Domus is perfectly positioned with the accumulated knowledge and support of its international teams to assist fund managers in facing and overcoming challenges that come their way. **HFM**

FUND ADMINISTRATION AND CORPORATE SERVICE PROVIDER

alterDomus*

ALTER DOMUS (CYPRUS) LIMITED**Alkis Kailos**

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Alter Domus (Cyprus) Limited is a member of the Alter Domus Group. Alter Domus is a leading provider of Fund and Corporate Services, dedicated to international private equity & infrastructure houses, real estate firms, private debt managers, multinationals, capital markets issuers and private clients. Our vertically integrated approach offers tailor-made administration solutions across the entire value chain of investment structures, from fund level down to local Special Purpose Vehicles. Alter Domus currently operates through 39 Offices and Desks worldwide, employs 1,800 professionals worldwide and administers US\$425bn assets in the 8,200 structures under Alter Domus administration.

FUNDS ASSOCIATION

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CIFA is the Association of professionals, businesses and organizations offering services and being involved in the Investment Funds Sector in Cyprus. CIFA focuses on enhancing the high level of sophistication of the Investments Funds Industry and addresses the broad range of needs and issues faced by service providers and businesses involved in the sector.

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We advise on all aspects of the life of a fund including formation, restructuring and closure, both in distressed and planned scenarios. Our funds lawyers sit side-by-side with the funds team from our associated funds services business allowing us to provide integrated legal and administrative support to our funds clients. We have also established the only dedicated offshore regulatory practice providing regulated clients with essential legal support.

DEPOSITORY

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Established in 1899, Bank of Cyprus is currently the leading banking and financial services Group in Cyprus, operating 123 branches. Since September 2014, high-quality institutional investors have become shareholders, strengthening the Group's share capital. Bank of Cyprus compliance and corporate governance function is of the highest international standards, adhering to the principles of the US Patriot Act, as well as to domestic and EU law. The Group is the only corporation in the region fully complying with the UK Corporate Governance Code, the Cyprus Stock Exchange Code, and the Central Bank of Cyprus Directive on governance and management arrangements in credit institutions. The Bank is listed on the London Stock Exchange, which has the most demanding and strict corporate governance codes internationally.

FUND MANAGEMENT

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GMM Global Money Managers Ltd is the first Cyprus-based Fund Management Company. It operates in the financial sector, setting up, running and managing UCITS Mutual Funds as well as Alternative Investment Funds (AIFs) in line with the most recent EU directives. The Company through an extensive range of potential investment options, is seeking to provide effective geographical coverage and achieve diversification of investment risk in international money and capital markets.

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KPMG provides comprehensive audit, risk advisory, tax and regulatory services to fund managers and fund promoters setting up and/or operating through Cyprus. Such services include fund set-up; regulatory interpretation and support; proactive tax advice; investment acquisitions and due diligence; fund liquidation, re-domiciliation and/or restructuring. Our local practice is at the forefront of industry issues, working closely with the industry and actively participating in discussions to improve the end product which Cyprus has to offer. The combination of a strong and established local practice along with the global reach of KPMG international network spreading across 152 countries places us in an optimal position to provide added value service to our clients.

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