

“The Cyprus Funds Industry and its Structure”

Presented by

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Agenda

- 1. Legal Framework of AIFs**
- 2. Types, Legal Structures of AIFs and Upcoming Changes**
- 3. Key Benefits of AIFs**
- 4. Fund Management Companies, Legal Framework and Upcoming Changes**
- 5. Why Setup or Relocate a Management Company in Cyprus**
- 6. Tax Benefits**



Legal Framework of AIFs

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A Complete Framework for Funds and Management Companies

▪Modernization of the legal framework:

- Transposition of the UCITS IV Directive in 2012 and UCITS V Directive in 2016.
- Transposition of the Alternative Investment Funds Managers Directive (AIFMD) in 2013.
- Enactment of the Alternative Investment Funds Law in July 2014 (AIF Law).

▪The new Laws offer a solid, EU harmonized framework, specifically designed to assist fund managers targeting emerging markets and to facilitate Private Equity and other specialized Fund structures.

▪Modernized provisions of the AIF Law:

- Establishment of funds marketed to Professional/Well-Informed or Retail investors.
- Introduction of Umbrella Funds with segregated Investment Compartments (Sub-Funds).
- Establishment of the AIF with Limited Number of Persons, a slightly regulated structure with no initial capital requirements.

The legislators have taken competitive and attractive elements from other established fund jurisdictions to create a modern framework with extensive options in terms of structuring flexibility and investor reach to name a few.

Types, Legal Structures of AIFs and Upcoming Changes

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Types and Legal Structures of Cyprus AIFs

Two types of funds: 1. Alternative Investment Fund (AIF)

2. Alternative Investment Fund with Limited Number of Persons (AIFLNP)

Legal Structures



*Common Fund
AIF*

Must have an external
Manager



*FCIC or VCIC
AIF/AIFLNP*

Can be managed either
Internally or Externally



*Limited Partnership
AIF/AIFLNP*

Must appoint an External
Manager as its General Partner

1.AIF

	AIF
Legal forms	Common fund (CF) Variable Capital Investment Company (VCIC) Fixed Capital Investment Company (FCIC) Limited Partnership (LP)
Eligible Investors	Professional and/or Well - Informed Investors or Retail Investors
Number of Investors	Unlimited
Umbrella Structure with Segregated Compartments	Yes
Eligible Investments	All asset classes
Investment Manager	Can be self-managed (in the case of a company) or appoint a fund manager
Eligible Manager	Alternative Investment Fund Manager (AIFM) UCITS Management Company MiFID compliant Investment Firm (IF)
Minimum Capital Requirement	EUR 125.000 or EUR 300.000 for self-managed AIF/AIFM The requirements apply to each Investment Compartment, when the AIF is established as an Umbrella Fund
Depository	Mandatory appointment of local Depository only if managed by an AIFM, otherwise EU member state or third country

2.AIFLNP

	AIF with Limited Number of Persons
Legal forms	Variable Capital Investment Company (VCIC) Fixed Capital Investment Company (FCIC) Limited Partnership (LP)
Eligible Investors	Professional and/or Well - Informed Investors
Number of Investors	Up to 75
Umbrella Structure with Segregated Compartments	Yes However, the limitation on the number of investors is applicable to the whole scheme.
Minimum Capital Requirement	Not Subject to Minimum Capital Requirement
Eligible Investments	All asset classes
Investment Manager	Can be self-managed (in the case of a company) or appoint a fund manager.
Eligible Manager	UCITS Management Company MiFID compliant Investment Firm (IF) Special Purpose Company (SPC)
Depository	Can appoint a depository from an EU member state or third country. Exceptions may apply in the following cases: <ul style="list-style-type: none"> • Total Assets < €5 Million • Investors < 5 • Assets not subject to custody

Thresholds Under the AIFMD

Management by:

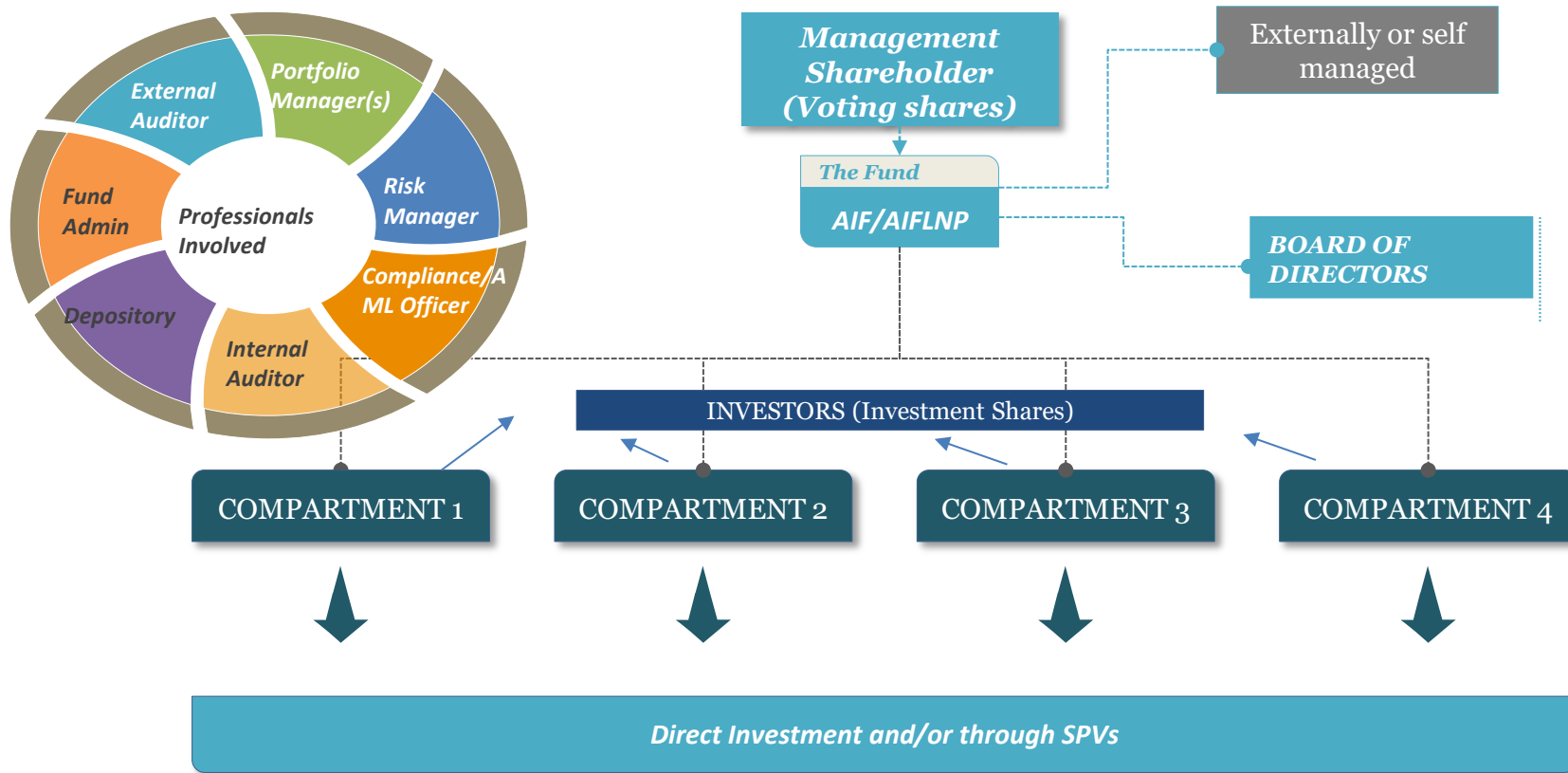
- *UCITS Management Company or*
- *EU Investment Firm or*
- *Self managed (if Fixed or Variable Capital Investment Company) or*
- *Special Purpose Company (for AIFLNP only)*

and one of the following conditions is valid:

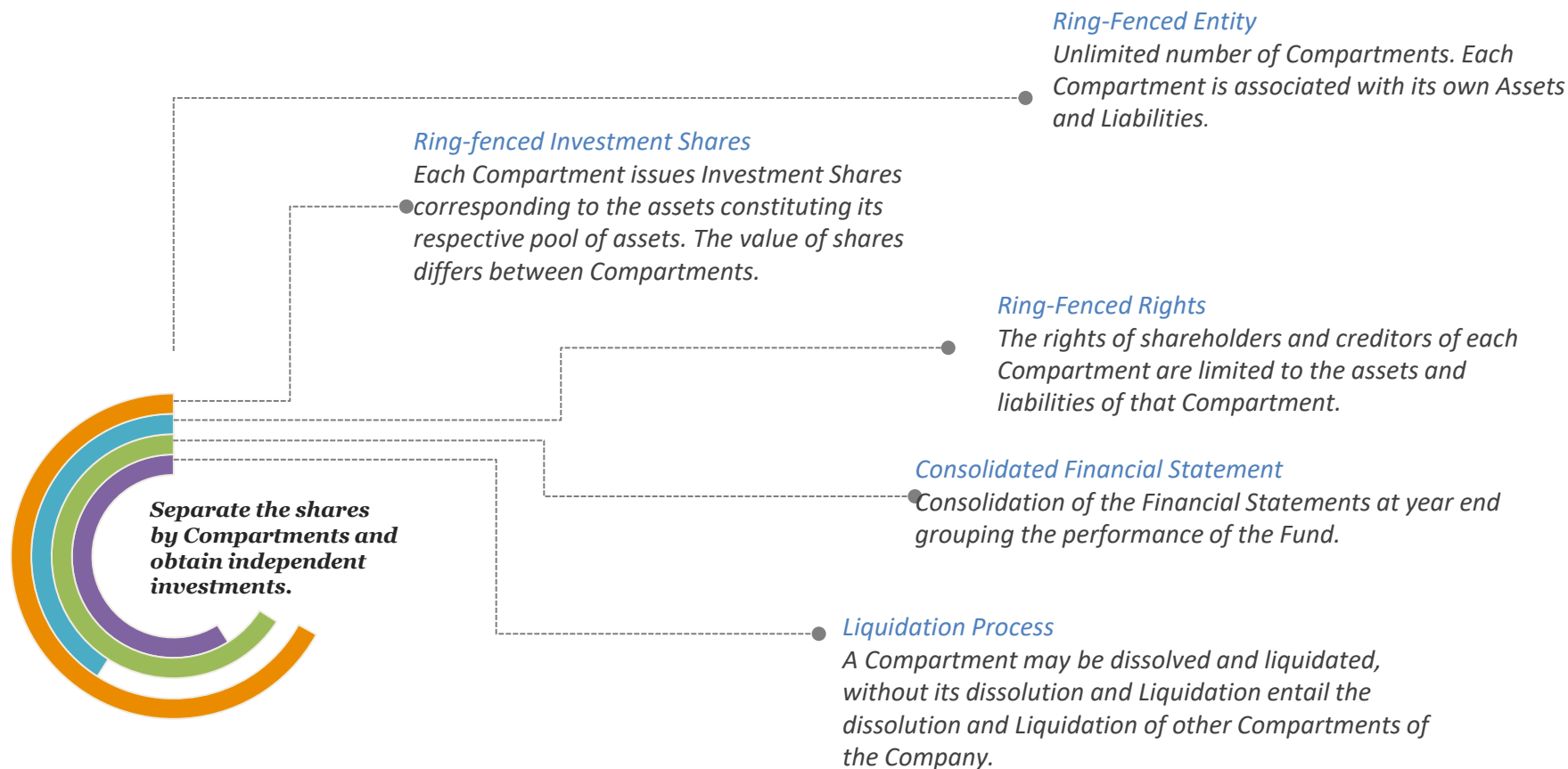
- ☐ *AUM < €100 million, applies to directly or indirectly managed assets*
- ☐ *AUM < €500 million if no leverage and no redemption within 5 years*
- ☐ *Self managed AIF registered as an AIFM*

Alternative Investment Fund Manager (AIFM) required in all other cases

The Structure



Ring-Fenced Compartments – Umbrella Structure



Upcoming Changes – Registered AIF (RAIF)

CySEC aims to introduce a new category of Alternative Investment Funds, the Registered AIFs ('RAIFs') which will be registered in a central register but, they will not fall under the direct supervision of CySEC.

Registered AIFs:

- Exclusively addressed to Professional/Well-informed investors,
- No Authorisation required/License from CySEC,
- Externally managed by an AIFM and supervised through the supervision of their Manager,
- The Registered AIFs will be able to operate as open or closed ended funds and could be organised in any legal form available under Cyprus Law,
- No initial capital requirements,
- Always appoint a Depositary,
- Will not be registered as Money Market Funds or Loan Originating Funds.

Upcoming Changes – Alternative Investment Partnership (AIP)

Limited Liability Partnership

CySEC also proposes to introduce the legal structure of a Limited Liability Partnership:

- (i) Cyprus Partnership Law has been amended in order to include the new legal structure*
- (ii) Has its own legal personality, liabilities are not transferred to its General Partners on a personal level*
- (iii) Authorized as per the provisions of the AIF Law as a self-managed or externally managed AIF*
- (iv) No tax transparency, taxed at the level of the Partnership*
- (v) Can be registered as an Alternative Investment Partnership (AIP) if closed-ended and invests only in illiquid assets*

Key Benefits of AIFs

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Key Benefits of a Cypriot Fund

Flexibility

- Any asset can be included in the investment strategy of the AIF

Transparency

- Annual audited and half yearly reports to be sent to the CySEC and the Investors

Tax incentives

- Cyprus AIF benefit from significant tax incentives / Establishment for taxation purposes can very difficulty be challenged

Regulations

- EU directives / business friendly jurisdiction (no onerous reporting requirements)

Low set-up and operational costs

- Easy and cost efficient to set up and maintain Cyprus funds

Modern Legislation

- Designed legislation to take into consideration new market realities and conditions
- Strong legal Framework based on UK Common Law

Fund Management Companies, Legal Framework and Upcoming Changes

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A Complete Framework for Funds and Management Companies



Transposition of the (i) UCITS IV Directive in 2012 and (ii) UCITS V Directive in 2016



Transposition of the Alternative Investment Funds Managers Directive (AIFMD) in 2013

Note: The new Laws offer a solid, EU harmonized framework, specifically designed to assist fund managers targeting emerging markets and to facilitate Private Equity and other specialized Fund Structures.

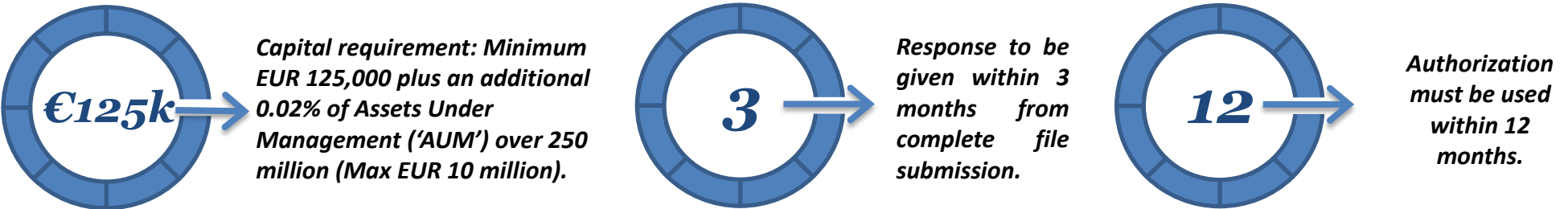
A Complete Framework for Funds and Management Companies



An 'EU-Compliant' manager carries the highest level of investor perception and would inevitably add to a manager's scope and possibility to reach previously unreachable investors.

The European passport offered to the fund management industry when structuring out of Cyprus and other traditional benefits associated for years with the Professional Services Industry in Cyprus, provide exceptional possibilities for cost effective, cross-border and global fund distribution.

AIF Managers / UCITS Management Companies



- *Substance requirements (offices in Cyprus).*
- *Cross referencing between two authorizations - Receive License as both an AIF Manager and UCITS Management Company (information submitted during initial authorization is not required to be re-submitted for cross-referencing).*
- *Once authorized, the AIF/UCITS Management Company must comply with the conditions of its authorization at all times.*
- *Apart from Fund management services, can also offer discretionary Portfolio Management and Investment Advise services to individuals and other professional clients.*

Upcoming Changes – Mini Manager

CySEC will also amend the AIFM Law to include Mini Managers that would manage assets below the AIFM thresholds. This would facilitate the development of a new competitive market in Cyprus.

Mini Manager/Sub-threshold Manager

- Authorised and Regulated by the CySEC,
- Limited Liability company with shares and registered office in the Republic, whose sole purpose is to manage AIFs,
- As this category is not within the scope of the relevant European Directive, it will be regulated by the national legislation,
- Upon authorisation, is registered in the Special Registry maintained by CySEC and must fulfil minimum regulatory requirements with regards to fund management, risk management, disclosure to investors, compliance, internal audit, and other operational areas.

Why Set-Up or Relocate a Management Company in Cyprus

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Why Set-Up or Relocate a Management Company in Cyprus

- Relocation to an EU jurisdiction and access to the whole EU investor market via passporting.
- EU and OECD approved tax regime.
- Gateway to emerging markets and regions with which Cyprus has established business ties.
- Significant experience with the markets of Middle East, Dubai and India.
- Extensive network of double tax treaties allowing efficient structuring.
- EU fully harmonised fund management legislation
- Modern fund management legislation.
- Business friendly and efficient regulator.
- Skilled service providers and established business center with strong track record in servicing international clients.
- Cost efficient jurisdiction.
- Strong legal framework based on UK Common Law.



Tax Benefits

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Tax Benefits



Lowest Corporate Tax in the EU (Possibility to reduce to 2.5% because of Notional Interest Deductions).



No subscription tax on the net assets of the Fund.



Exemption from tax on capital gains from sale of corporate titles and other financial instruments.



No withholding tax on income repatriation or dividends paid to foreign unitholders.



No capital gains tax on disposal of shares/units by the holders (Assuming no Cyprus real estate asset).



Capital gains from the sale of immovable property situated outside Cyprus is tax exempt.



A wide network of Double Tax Treaties is in place with more than 50 countries worldwide.

Asset Managers Tax Considerations

Corporate Tax at Fund Management Company level	Personal Tax on employees of Fund Management Company
12,5% flat Corporation tax on Worldwide annual net profits	Progressive personal income tax rates up to 35%
Exemption on Dividends received	No taxation of interest and dividends received by Cyprus tax resident but non-domiciled individuals
Exemption from Capital Gains Tax (CGT) from sale of shares and other instruments (assuming no immovable property)	50% exemption for income over €100k for an individual not resident in Cyprus before commencement of its employment (exemption valid for 10 year period)
No deemed dividend distribution in respect of non resident and/or non domiciled shareholders	
No withholding tax on dividend payments to non resident and/or non domiciled shareholders	
Possibility for claiming Notional Interest Deduction (NID) on new equity (NID capped at 80%)	
VAT exemptions for Management and Administration fees	

Thank you