

# CYPRUS FOR FUNDS











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## CYPRUS: Solutions in a Changing Fund Industry

### **The EU Alternative Investment Fund Managers Directive (AIFMD)**

The AIFMD aims at favoring the European Union (EU) -based management and marketing of Alternative Investment Funds (AIFs) e.g. Private Equity, Real Estate, Commodity Funds, Infrastructure Funds and Hedge Funds, which are managed by EU - based Alternative Investment Fund Managers (AIFMs) authorized under the AIFMD. EU AIFMs that fall into the scope of the AIFMD are subject to authorization requirements but can also benefit from the option to market the shares of the AIFs they manage in the EU by observing a simple notification procedure. Non- EU AIFMs will face more onerous requirements. Thus, the establishment in an EU jurisdiction offers a competitive advantage vis-à-vis the non - EU AIFM. The AIFMD has now been finalized and provides regulatory requirements such as:

- Valuation of assets the frequency depending on the type of the AIF.
- Detailed and transparent accounts for the AIFMs and each managed AIF.
- Capital requirements increasing with the size of assets under management in alignment with the UCITS regime; If the AIF is externally managed, plus additional funds to cover potential professional liability risks for both externally and internally managed AIFs.
- AIFM's internal policies, procedures and controls to deal with proper governance management of conflicts, control of liquidity and other internal functions.
- Monitoring of leverage with regular reporting, if

leverage is employed on a substantial basis.

Other requirements include the appointment of an independent depositary. Exemptions for Private Equity Funds may apply. Delegation of management tasks must be justified, notified and when it concerns core management functions permitted only to authorized professionals.

AIFMs will be required to regularly assess the level of risk while disclosing to investors the fund leverage limits through regular updates . They will be required to report holdings in non-listed companies or issuers, with notification thresholds starting at 10% of voting rights.

Remuneration is also targeted by the new Directive and includes requirements to limit "excessive risk taking" and high transparency on remuneration and deferral of payment.

Non-EU AIFMs must observe an EU harmonized regulatory framework when marketing shares of AIFs managed on the base of national private placement regimes. Obtaining a passport will require AIFMs designate an EU member state of reference and appoint a legal representative there to carry out compliance and communication functions.

The AIFMD will come into force in early 2011 and will take effect in all member states by 2013. Thus, many unregulated and non-EU entities will fall under the Directive, including custodians and administrators whose increased duties and responsibilities are likely to have an effect on costs.



The Cyprus Investment Fund industry offers an environment that makes it possible and affordable for AIFMs and their AIFs to comply with the new Directive with operational, legal and financial efficiency. Prior to the commencement of the Directive local professionals are assisting AIFMs in the completion of the analysis of their structures, investor bases and operations.

### **UCITS IV Directive**

UCITS IV is a new directive which provides for a Pan - European full management company passport permitting the remote set-up and management of UCITS established in cost- effective EU member states such as Cyprus without the presence of a management company in the country of establishment. Under UCITS IV, a UCITS will be allowed to market its units/shares in a target host member state once its home regulator confirms that it has submitted a complete notification file (standardized in form and content) to the host regulator within a maximum of 10 working days. This simplified notification procedure is only applicable within Europe.

The existing simplified prospectus will be replaced by a new, mandatory, fully harmonized and investor-oriented Key Information Document (KID). The KID will significantly impact existing UCITS documentation management in connection with the source of information to input into the KID, as well as, with the need for consistent data for the production of various investor documents (KID, prospectus, website, marketing factsheets, etc.).

UCITS IV will provide promoters of UCITS with the possibility to amalgamate assets and achieve economies of scale through cross-border mergers of UCITS or by

allowing cross-border master/feeder structures for which Cyprus offers highly flexible and efficient structuring solutions.

Following the adoption of the latest UCITS Directive (UCITS IV) that is due to take effect in July 2011, in addition to the AIFMD, the key challenge for promoters and managers is to determine the best location for their management companies and funds. Cyprus has become an ideal location for UCITS IV business not only for existing managers from traditional UCITS markets but for new and dynamic managers seeking new horizons in their investment strategy and distribution.

Thanks to its long standing relationships with wealthy countries from the Middle East, Asia and the CIS region, Cyprus is the most accessible bridge for the managers of these countries to enter the UCITS IV universe and bring their asset management value to new investors through the globally recognized UCITS brand.



## CYPRUS: The location of choice for the domiciliation and administration of Investment Funds (UCITS & non UCITS)

### INTRODUCTION

Cyprus is an attractive financial center combining unique cost and flexibility features while complying with EU Fund regulations and international best practice. The country offers a strong regional platform for a variety of banking products and financial services including the setup, management, administration and distribution of Investment Funds. Cyprus, over the past 10 years, has completed a programme of reforming all its finance sector legislation in line with international best practice and has put a simplified, effective and transparent tax system in place which is fully EU, OECD, FATF and FSF compliant.

Since its accession to the EU in 2004 (Euro in 2008) and the harmonization of local regulations to the "Acquis Communautaire", Cyprus has rapidly grown as a fund centre at the crossroads of three continents for UCITS and non UCITS, offering unique possibilities for cross-border and global fund distribution benefiting from an efficient and reliable fund infrastructure. Experienced and recognized service providers are established in Cyprus including custodian banks and central administration companies capable of serving a wide range of funds and providing operational support and reporting solutions for all EU and non - EU distribution countries at competitive rates. The arrival of fund management activities with strong local presence is another testimony to the expertise of professionals who cater to complex fund strategies and structures, making Cyprus a fund management business domicile of choice.

Today, dedicated service providers support funds throughout their entire life cycle: regulatory approval, listing on the Cyprus Stock Exchange, order routing, registration, clearing and settlement. The technology and expertise supporting the Cyprus fund industry constantly evolve to accommodate new products and the growing registrations of Cyprus funds.

Once all the necessary documentation is in place, setting up a fund in Cyprus is a relatively quick process in close exchange with the regulator. It is equally straightforward for an existing fund management firm or regulated financial services entity to obtain the authorization to operate from Cyprus on the basis of 'passporting' an existing license from another EU jurisdiction.

### LEGAL FRAMEWORK

Over the past 10 years, Cyprus's legal system has constantly evolved in line with investors needs, to result in a sophisticated and comprehensive legal framework based on UK Law. It is designed to attract foreign funds and management companies to register and operate from Cyprus on the following principles:

- It provides a comprehensive framework for the setting up, licensing and marketing of all types of collective investment schemes and for providers of investment services.
- It has incorporated modern banking laws which conform to the best practices of EU banking regulations and supervision requirements and provides for an adequate level of regulation of non-banking financial activities.



- It allows for the set up and recognition of trusts and has brought Cyprus company law in line with EU company laws, particularly by providing clear rules for mergers, divisions, the disclosure of financial statements, the regulation of branches and other matters.
- It adopts EU and OECD standards in respect to supervision and the prevention of money laundering and insider dealing with the Financial Intelligence Unit (FIU) acting as the Unit for Combating Money Laundering (MOKAS).
- It consolidates the various provisions in Cyprus law on professional secrecy which provide the necessary reassurance to foreign investors without hindering the supervision of fiscal and regulatory compliance and without obstructing investigations into financial crimes as money laundering and insider dealing.

## REGULATORY FRAMEWORK

Since the introduction in 1999 of the International Collective Investment Scheme (ICIS) Law, Investment Funds started forming a distinct sector within the Cyprus financial services industry, which cater to the needs of Alternative Funds and specialized private equity funds such as real estate, energy and shipping.

The ICIS's are regulated by the Central Bank of Cyprus (CBC) and can be set up as an Experienced Investor Fund or a Private Investment Fund. Both fund types can operate as a Variable Capital Company, a Fixed Capital Company, a Unit Trust or a Limited Partnership.

Cyprus's non UCITS funds can cover all known alternative asset classes with a long history in private equity and real

estate funds. They offer unparalleled investment flexibility with non restrictive rules that make Cyprus a location of choice for non UCITS re-domiciliation in the EU in compliance with the future requirements of the Alternative Investment Managers Directive. In addition, numerous master/feeder arrangements are possible with many jurisdictions in order to attract new investor pools and benefit from specific regulatory and fiscal advantages.

Since 2004, UCITS funds are also present in Cyprus and are regulated by the Cyprus Securities and Exchange Commission (CySEC). They can be established as Variable Capital Companies or Mutual Funds. Through dedicated workgroups and efficient information exchange, the regulator and the fund service providers have completed all preparatory work to comply with the requirements of the UCITS IV Directive.

## LISTING ON THE CYPRUS STOCK EXCHANGE (CSE)

The Cyprus Stock Exchange is a widely recognized Stock Exchange and since 2009 the CSE has been officially a recognized stock exchange for tax purposes, by the UK's tax authority HM Revenue and Customs, under the Articles 1005(3)(a) and (3)(b) of the Income Tax Act 2007.

Additionally, the CSE has recently been designated as a recognized stock exchange, for investment purposes, by the Federal Financial Markets Service (FFMS) of Russia.

The CSE has a modern infrastructure and operates in accordance with the CSE Law and Regulations aligned with the EU directives. CSE is regarded as a favorable choice for funds, as well as for their managers, custodians





and administrators since, other than the recognition they favour, they can take advantage of the additional benefits CSE offers, such as tax incentives, as well as its competitive pricing policy and its trustworthiness, as inferred by the transparency requirements set out in its law, mostly regarding the dissemination of NAV and the periodical financial reporting. Furthermore, Investment Funds can be listed on the Investment Funds Market of the CSE, via a quick and simplified procedure, as defined in the Cyprus Stock Exchange Law.

More information about listing Investment Funds on CSE are available in the special edition Mutual Funds published by the Cyprus Stock Exchange.  
([www.cse.com.cy](http://www.cse.com.cy))

## REDOMICILIATION

There are many competitive advantages to be achieved by re-domiciling existing funds and their management in the **right** country including reputation, tax efficiency, cost competitiveness, the availability of an experienced workforce and, most importantly, a business oriented regulatory environment.

To facilitate this increased flow of business, Cyprus offers a simple, straightforward process for the re-domiciliation of Investment Funds and management companies. All types of investment vehicles can be re-domiciled including trusts, which can be merged into locally domiciled structures even though they are not legal persons.

Cyprus's regulation offers various options enabling foreign companies and funds to relocate and benefit from an EU regulated environment. Options include a complete transfer of the registered office to Cyprus, a merger

with a Cyprus Mutual Fund or Investment Company or the contribution by the offshore fund of all assets and liabilities to a Cyprus entity. Cyprus also offers numerous possibilities of master/feeder structures with both offshore and onshore jurisdictions.

The **right** choice of re-domiciliation will depend on a number of factors such as the size of the fund, the number, type and residency of the investors, the objectives, investments and exit strategies of the fund.

Expertise in structuring, setting up and relocating investment structures and management companies, and a robust flexible regulatory environment, combined with extensive fund servicing infrastructure and competitive pricing, all favor Cyprus as the new jurisdiction for your UCITS, sophisticated UCITS and alternative investments.







## CYPRUS: The location of choice for Asset Management Companies

### DISCRETIONARY PORTFOLIO MANAGEMENT IN CYPRUS

Asset management companies need prior authorization as Cyprus Investment Firms (CIFs) when providing discretionary portfolio management to third parties on a professional basis. The relevant law entered into force on 01.11.2007 (the Law of 2007). An application procedure has to be followed in order to obtain the CIF authorization and ongoing organizational, and operating requirements have to be met. As an exchange, a CIF may passport its activities throughout the EU.

**Capital requirements:** The initial capital for providing discretionary portfolio management upon application submission must be at least 200.000 EUR, whereas the CIF must have at all times own funds more than or equal to the sum of its capital requirements and never less than 200.000 EUR. A reduction of the issued share capital is subject to prior approval from the CySEC.

**Authorization procedure:** The application, the content of which is defined in the relevant CySEC form, has to be submitted to the CySEC in writing and signed by the members of the Board of Directors (B.o.D), who remain responsible for the accuracy, completeness and correctness of the submitted information and documentation by confirming that they have exercised due diligence upon submitting it. The B.o.D. of the applicant must authorize by means of resolution a specific person or persons to carry out the communication with CySEC during the period of assessment of the application. The written application to the CySEC should include

among other information on the internal regulations (including the applicant's computer network and electronic infrastructure and rules governing personal transactions of managers, employees and tied agents), a business plan, organizational structure, as well as the identity of qualifying shareholders (>10% of capital or voting rights directly or indirectly) and the amount of the respective shareholdings. An application charge of 3.000 EUR plus 1.000 EUR for the service of discretionary portfolio management must be paid. Redomiciliation of a financial services entity to Cyprus is also possible. The CIF has to be member of the Investment Compensation Fund for Clients of CIFS (Investor compensation scheme). The decision of the CySEC must take place within 6 months from the submission of a duly completed application.

**Operating conditions:** A CIF's operating conditions will vary according to the nature, scale and complexity of the CIF's business. The management of a CIF must be effectively conducted by two persons of sufficient repute and experience (Managers), while one of them has to be a Cyprus resident. The majority of the members of the B.o.D. must be Cyprus residents. The head office of the CIF has to be established in Cyprus and has to be fully fledged with full-time employed personnel, while the possibility of outsourcing is possible. In order for a person employed by a CIF to be able to perform the discretionary portfolio management function one must have successfully passed exams provided for by the Law of 2007, which are held at least annually and be registered in the public register held by the CySEC. Within four months from the end of the CIF's financial year, audited financial accounts must be submitted together with a signed copy of the auditor's report. An annual supervision fee must be paid.





## **COLLECTIVE PORTFOLIO MANAGEMENT FOR UCITS FUNDS BY A CYPRUS MANAGEMENT COMPANY**

A management company has to be appointed for managing the portfolio of a UCITS Fund of contractual type and of corporate type, if the latter is not self-managed. The relevant provisions are found in the UCITS Law of 2004 as amended and in the CySEC Directive 200-2004-08. A full Pan-European passport exists for UCITS management companies.

**Capital requirements:** The minimum own funds of a UCITS management company must be paid up upon granting of the UCITS management company license. Any capital reduction is subject to prior written permission by the CySEC.

**Authorization procedure:** A UCITS management company license is granted following a written application in accordance with forms issued by the CySEC and is restricted to UCITS management and may comprise management of collective investment schemes, for which it is subject to prudential supervision. The CySEC will take into consideration the quality and conduct of the qualifying shareholders, the applicant's organizational and technical infrastructure and staff, its financial means, the reputation and experience of the members of the Board Directors and the managers as well as the compliance of the Memorandum and Articles of Association with legal provisions. Along with the application, the applicants have to submit their Memorandum and Articles of Association, which must indicate the proposed activities.

**Operating conditions:** The UCITS management company must be established and governed in accordance with the provisions of the Companies Law. Its registered office must be established in Cyprus. A UCITS management company must establish and maintain permanent and independent compliance, internal audit and risk management functions, whereas risk management and compliance functions may coincide in the same person. The business of the UCITS management company has to be managed by at least two persons of good reputation and professional experience with regard to the UCITS to be managed. Outsourcing of internal audit, risk management, compliance and portfolio management functions is possible, provided the UCITS management company does not end up in a letter box entity and it has sufficient resources and expertise to monitor the activities of the delegate.





## TAXATION IN CYPRUS

Cyprus is increasingly becoming an EU destination of choice for Fund managers and management companies seeking new locations for the following reasons:

- A 30% cap on personal income;
- A 10% cap on corporate tax, the lowest in the European Union;
- Corporate tax can be reduced to 0% since gains from trading in securities are tax exempt.
- Flexible regulation and light supervision;
- Substantially lower operating costs than comparable EU fund centres.

The Cyprus tax laws are designed to support the development of the country as an international financial and business centre, to promote international investment and to support the development of financial services.

**In this respect Cyprus Tax Laws have been amended to provide further tax incentives for the set up and operation of funds. Such amendments provide that:**

- Interest received by open and closed end collective investment schemes is considered 'active' interest income and taxed only at 10% corporate tax (hence, no defence tax);
- There is no minimum participation on inbound dividends to qualify for tax exemption;
- The liquidation of open and closed end collective schemes is not taxable if the unit holders are not tax residents of Cyprus;

- To the extent where Cypriot tax resident investors have invested in a fund, there is a 3% defence tax on deemed dividend distribution on 70% of the collective investment scheme accounting profits within a two-year period from the tax year to which the profits relate, pro-rated to those profits attributed to the Cypriot investors;

Adding to the above, Cyprus has a wide and beneficial Double-Tax Treaty (DTT) network which creates a competitive tax and corporate environment compared with other jurisdictions. There are currently more than 45 DTTs in force with 38 others being negotiated. An extensive double tax treaty network can provide substantial attractions as funds can collect dividend and interest from Cypriot treaty partners at the withholding tax rates provided under the DTT. Under most treaties, profit generated from the sale of securities is only subject to tax in Cyprus and hence tax exempt.

### **Fund Management Services:**

Management Companies or regulated Service Providers to the Asset Management Industry (CIFs) are subject to a unified corporate tax of 10%. There is no withholding tax on payments of dividend and interest to non-resident shareholders.

Fund management services which are supplied to funds approved by the CBC, are subject to the standard VAT rate of 15%, the lowest in the European Union.









## OUR VALUE PROPOSITION

Although Cyprus is continuously evolving as a financial centre, it already has everything in place to make it an excellent base for fund's business and fund sector professionals. The strategic geographical location of the island at the crossroads of three continents and at the borders of Europe, facilitate partnerships serving as the springboard for investments in Europe, the MENA region, Asia and the CIS countries.

The country's location is further enhanced by its connectivity to the busy trade routes to all major cities of Europe, Asia, the Middle East and the Far East. Cyprus's two international airports offer over a 1,100 scheduled flights per week served by 32 international airlines or by a selection of private and corporate jet operators.

In a globalized economy where multinational companies are pressed to maintain and increase quality while cutting costs to meet increasingly higher client expectations, Cyprus provides a complete value proposition with its:

- **Membership in the European Union and the European Monetary Union**

- **Highly educated, qualified and multilingual talent**

There are 341 public and 27 private primary schools and 124 public and 36 private secondary schools. Since 2005, Cyprus is in the top ten countries within the EU with the lowest pupil per teacher ratio of 18 pupils per teacher.

- **Low corporate tax rate and double tax treaties**

Cyprus is among the countries with the lowest corporate tax in Europe of 10%. Dividend income, profits from overseas permanent establishments and profits from the sale of securities are exempt from tax. No withholding tax on dividend, interest and royalties paid from Cyprus. Cyprus has concluded double tax treaties with over 45 countries.

- **Wide and efficient network of legal, accounting and banking services**

International accounting firms and banks have a long term presence in Cyprus. Cyprus has a robust legal and regulatory framework. The legal system has evolved from Common Law and is harmonized with the European Union legal framework, the "Aquis Communautaire", or the EU body of common rights and obligations.

- **Advanced telecommunications network and easy travel**

Two international airports, state-of-the-art hi-speed internet and mobile telecommunications. Considerable investment has been made into transforming the island into a telecommunications hub for the region. Cyprus is connected to a number of advanced technology submarine cables which provide excellent connectivity to Europe, the Middle East and Asia. In addition, seven satellite earth stations provide further satellite telecommunications connectivity making it easy for companies to locate here and be connected globally through an advanced and reliable communications network.

- **Enviably quality of life**

For the fund management firms and people seeking high quality business services, low tax, combined with a high quality of life makes Cyprus a great place to live and work. Cyprus has fabulous weather, beautiful nature, low stress, art and culture, safety, security, gastronomy and wine and above all, hospitable people.





## THE CYPRUS INVESTMENT PROMOTION AGENCY (CIPA)

Established with a Council of Ministers decision in 2007, the Cyprus Investment Promotion Agency is a registered not-for-profit company limited by guarantee and fully funded by the Government of Cyprus.

The Cyprus Investment Promotion Agency has a threefold mandate:

- To promote Cyprus as an attractive international investment centre in key priority growth sectors
- To advocate reform in Cyprus required to improve the regulatory and business environment and infrastructure
- To provide investor support with after care and further development services

CIPA has established its membership with the World Association of Investment Promotion Agencies (WAIPA) and ANIMA Investment Network, the Mediterranean countries' Investment Promotion Agencies Foundation. Memberships in these and other fora provide a platform for best practices sharing and learnings in the area of FDI promotion and strategy implementation.

As a result of the increased interest by international fund promoters to domicile their funds and operations in Cyprus, the Cyprus Investment Promotion Agency has set up an Expert Fund Industry Committee to further develop the Cyprus' funds industry which already has a lot to offer such as the presence of a comprehensive legal and regulatory framework, cost competitiveness and a professional business environment

The primary role of CIPA's Expert Fund Industry Committee is to actively promote the Cyprus Investment Fund industry, its products and its services. The committee represents the sector in economic missions organized by the Cyprus government around the world and participates in representative events of the global fund industry.

An important objective of the CIPA Expert Fund Committee is to act as a channel of communication and to make representations to the Cyprus Government and the regulator on legislative, regulatory and fiscal matters which among others have an effect on the business and/or professional interests of the Investment Funds industry. The committee operates as a working group constantly reviewing and analyzing developments worldwide, as well as legal and regulatory changes in Cyprus and the EU, to identify opportunities for the Cyprus fund industry.

[www.cipa.org.cy](http://www.cipa.org.cy)



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