

## ***Cyprus – The New Investment Fund Centre in Europe***



The continuous efforts by Cyprus' regulatory authorities and industry professionals to upgrade and modernise the country's legislative and regulatory framework for funds are resulting to Cyprus emerging as a new investment fund centre in Europe. The enactment of the new Alternative Investment Funds Law and the UCITS IV Directive are the latest in a long line of efforts in transforming Cyprus into a true financial jurisdiction.

The new Alternative Investment Funds (AIFs) Law creates an attractive and competitive environment for the further enhancement and development of the fund industry of Cyprus and aligns it with the latest EU directives on asset management with a focus on transparency and investor protection.

The new Law has replaced the existing law on International Collective Investment Schemes (ICIS) which was introduced in 1999. Any existing ICIS structures will either maintain their current organisational structures, and comply with the AIF Law where required, or re-organise their structures in order to benefit from new opportunities made available with the AIF Law. In principle, ICIS will be considered to fall under the Limited Number of Investors category.

Cyprus offers now both Alternative Investment Funds and EU regulated Undertakings for Collective Investment in Transferrable Securities (UCITS). Industry experts believe UCITS to remain more of a niche market while the Alternative Investment Funds will continue to dominate funds business.

More than just modernising the existing law, the new framework increases Cyprus' competitive offering by opening the market for new types of funds. Furthermore, funds can now be marketed to both, professional and retail investors, not to mention the introduction of umbrella funds with segregated investment compartments. Having all types of Funds under a single regulatory authority, the Cyprus Securities and Exchange Commission (CySEC), is an ulterior benefit.

Moreover, Cyprus now offers easy EU passporting to the fund management industry providing unparalleled opportunities for cross boarder and global fund distribution. For AIFs, the passport possibility is vested in the regulatory status of its manager as an authorised AIFM, instead of the fund itself. An AIF is thus granted a passport only when it is managed by an AIFM, whose appointment will be either mandatory because the prescribed thresholds are exceeded or optional because of opting-in. The same concept applies in the case of a self-managed AIF. Thus, for an AIF below the prescribed thresholds that has appointed an entity other than an AIFM as its manager or does not opt-in (if self-managed), no passport will be granted. This is expected to attract EU and non-EU companies interested not only in having access to European Union investors, but also in gaining the badge of an EU compliant manager. Re-domiciliation of funds is also possible.

The comparatively low costs and high quality of services make Cyprus an attractive funds jurisdiction and restructuring of existing companies under a new AIF can resolve many of the problems posed by increased CFC regulations in various countries.

Cyprus has long been a jurisdiction of choice for companies and individuals in search for an ideal location to structure their investments into Europe, Middle East, Africa, Russia and the CIS. Becoming a Funds Jurisdiction will change the island from a "flow-through" zone into a jurisdiction that will collect and manage funds for international investments.

This new industry will attract international players that will assist Cyprus' economic recovery and build a Brand of excellence as a modern financial centre. There is potential in the Cypriot investment fund sector to develop into a multi-billion Euro industry and it offers an opportunity for the island to strengthen the existing investment relations with Russia but also to open up new gateway relations with the Middle East, Africa and China.

## **AIF Law – New Structuring Options**

The structuring options below were not possible under the previous framework.

**Umbrella Funds:** The new AIF Law allows AIFs to be set up with several investment compartments, each constituting a separate pool of assets. Such an AIF represents a single legal entity. The different investment compartments have to issue units corresponding solely to the assets of each one. Therefore, asset value per investment compartment may differ. Unit holders of a specific compartment shall only have rights arising from the assets to the specific compartment, while each compartment shall be liable for the obligations arising solely from its constitution, operation or dissolution.

Different compartments within a single AIF have the possibility to invest in each other only if this is allowed in its constitutional documentation, under the condition of certain defined investment restrictions.

**Common Funds:** are commonly used investment vehicles, particularly for pension funds. Common funds are contractual fund structures where investors participate as co-owner of the assets of the AIF.

**Public Offerings:** The new AIF Law allows shares/units of AIFs to be publicly offered. The offering of ICIS shares/ units was restricted to private placement only.

**Listing in the Stock Exchange:** Listing in the Cyprus Stock Exchange is currently only available for UCITS Funds. Proposed changes to the law will allow AIFs to be listed in the near future which increases the AIF's potential investor base and enhances marketability and transparency.

The **Depositary function** may now be undertaken, in certain cases, by an entity other than a credit/ banking institution, subject to certain conditions. This may aid in the structuring and operations of AIFs not directly investing in financial and money market instruments, such as private equity and real estate funds.

## **Competitive Advantages of Cyprus AIFs**

Cyprus offers one of the most international, business friendly and cost-effective environments for fund administration in the EU. Boasting with one of the most highly educated workforces in Europe, it is safe to say that Cyprus offers more than just sunshine: English is the business language of the UK trained accountants and lawyers who cherish a global outlook and high service standards.

Cyprus AIFs can prove to be a viable option for resolving many of the issues posed by increased international CFC regulation in various countries.

Cyprus has also an exceptionally beneficial tax regime for businesses. In fact, the country is becoming a destination of choice in the EU for Fund Managers and Management Companies for the following tax reasons:

- Uniform corporate tax at 12.5%
- 35% cap on personal income tax
- Gains from trading in a wide range of securities are exempted from tax (including shares and units of investment funds)
- Double Tax Treaties with more than 50 countries

## **Fund Taxation**

- Only interest received by open and closed end collective schemes is taxed at 12.5%
- There is no defence tax
- Dividends received, gains arising from the trading of securities, capital gains from sale of property abroad and from sale of shares of foreign property companies are all exempted from tax
- There is no minimum participation on inbound dividends to qualify for tax exemption
- There is no subscription tax on the net assets of the fund
- Fund management services are not subject to VAT
- If the unit holder is not tax resident in Cyprus, the liquidation of open and closed end collective schemes is not taxable

## **Investor Taxation**

### *Foreign Investors:*

- No withholding tax on dividends
- No taxation on redemption of units
- No deemed distribution restrictions

### *Resident Investors:*

- If the investor is a company, there is no withholding tax on dividends
- If the investor is a physical person withholding tax on dividends 17%
- No taxation on redemption of units
- Deemed distribution of 3% (as opposed to 17%)

## **Single Regulator**

With the implementation of the new framework for Alternative Investment funds all regulation has been consolidated under the Cyprus Securities and Exchange Commission (CySEC). This is set to result in more streamlined procedures and further enhance Cyprus' appeal as a fund domicile. In addition to AIFs, CySEC now regulates UCITS funds, Management Companies and MiFID regulated Investment Firms.

## **Redomiciliation**

Foreign entities have been able to redomicile in Cyprus since 2006. Companies engaged in licensed activities, such as fund management, must produce relevant consent for redomiciliation from the relevant authority in their country. Moreover, a company that intends to undertake licensed activities in the Republic of Cyprus should obtain the appropriate license from the local authorities before commencing activities.

## **Cyprus Investment Funds Association (CIFA)**

The Cyprus Investment Funds Association (CIFA) is the Association of professionals, businesses and organizations offering services and being involved in the Investment Funds Sector in Cyprus. It was set up in February 2013 to raise awareness of what Cyprus has to offer among international managers, administrators and investors.

CIFA focuses on enhancing the high level of sophistication of the Investment Funds Industry and addresses the broad range of needs and issues faced by service providers and businesses involved in the sector. The mission of CIFA is to shape regulation in Cyprus, help its members capitalize on industry trends, enhance professionalism, integrity and quality and promote the Cyprus Investments Funds Industry.

*Andreas Athinodorou, the CEO of the Aspen Trust Group, is one of the founding members and on the Board of Directors of CIFA.*

## **What We Can Do for You**

A challenge fund managers face on a day-to-day basis is finding a reputable funds jurisdiction that offers ease of doing business at the right level of cost. With the new Alternative Investment Funds Law Cyprus has stepped up to the league of Modern Financial Centres, capable to satisfy the appetite of fund managers and investor principals looking for a European domicile.

Capitalising on our experience in assisting in the licensing and administration of Alternative Investment Funds with diverse portfolios of investment in Poland, Russia, India and other key investment destinations the Aspen Trust Group offers the structuring and set-up of funds and the provision of on-going management services.

We offer our clients a single point of contact, located in a favourable time zone. We undertake to act as the coordinating party between the principals of the structure and all the professionals involved across all major jurisdictions. The added value of our service lies in the continuous monitoring and advising of clients regarding legislative and compliance requirements and changes, recommending appropriate solutions to safeguard their interests.

Furthermore, we have built strong professional relationships with the local regulatory and governmental bodies, banks and industry professionals, offering our clients with a competitive advantage and value added first class service.

We, at The Aspen Trust Group already have experience in Fund establishment and administration. Contact us at [info@aspentrust.com](mailto:info@aspentrust.com) in order to find out how we can assist you in setting up and administering a Cyprus Fund.