



# CYPRUS FUNDS

# FORWARD

Cyprus is fast becoming a location of choice for many promoters and fund managers and this is evidenced by the growing number of fund service providers established in Cyprus and the formidable growth in assets under management to over €7 billion in 2019.

As a European Union Member State, Cyprus benefits from the harmonisation of EU financial services regulations. The high quality of financial services offered, combined with the flexibility and clarity of its laws and regulations together with its geographical location, enable Cyprus to serve as a convenient 'bridge' offering competitive access to Europe, the Middle East and Africa. Cyprus is now one of the top emerging investment fund centres in Europe and is developing into a key regional domicile for investment funds and asset managers.

Funds are also performing an increasing role in the real economy acting as a substitute to bank financing, by investing in long-term infrastructure, healthcare and education projects and private equity investment assisting start-ups and established companies to expand operations and enter international markets.

Funds also provide beneficial solutions to succession planning and the management of family assets and are therefore playing an increasingly important role in the family office sector.

The regulatory and government bodies understand that a properly regulated fund industry has an important role in ensuring that the Cyprus financial services sector is able to meet the challenges of increased regulation, tax compliance and ethical practices and actively promote Cyprus as a centre of excellence for the international fund and asset management industry. The regulatory framework is continuously upgraded with the aim of doing business in Cyprus more attractive whilst maintaining a high level of investor protection and strengthening the jurisdiction's reputation and standing.

BDO is proud to be a leading contributor to the success of the Cyprus Fund industry. We invest in our people and in technologies to provide the highest quality of fund services supporting our clients in meeting their regulatory obligations and effectively dealing with the operational challenges of running their fund.

Karlos Zangoulos  
Managing Director



# THE CYPRUS FUNDS MARKET

## Legal framework

The enactment of the Alternative Investment Funds (AIF) law in July 2014 aligned the Cyprus legal and regulatory framework with EU directives on asset management, with the aim to enhance transparency and investor protection. In its continuing efforts to modernise its fund framework, subsequent laws were introduced offering more investment structuring possibilities and upgraded rules for the authorisation, on-going operations, transparency requirements and supervision of Cyprus AIFs, as well as the regulation on the role and responsibilities of their directors, depositaries and external managers.

## During 2018:

- *The Registered AIF was introduced providing a fast and effective fund launch that does not require licensing.*
- *Significant enhancements to the Limited Partnership regime were made to provide certainty regarding the limited liability status of the limited partners and providing greater scope for the upcoming introduction of a limited partner with legal personality that will allow the general partner to have separate legal personality while maintaining the transparency status.*
- *Among other amendments, an 8% flat rate taxation on performance-based variable remuneration for certain employees was introduced.*

## Regulation

The investment services market, the collective investment and asset management sector are regulated by the Cyprus Securities and Exchange Commission (CySEC), which is an independent public supervisory authority whose mission is to ensure investor protection and the healthy development of the financial industry under its supervision and to establish the Cyprus securities market as one of the safest, most reliable and attractive destinations for investment.

## CySEC is a member of:

- *International Organization of Securities Commissions (IOSCO)*
- *European Securities and Markets Authority (ESMA)*
- *European Fund and Asset Management Association (EFAMA)*



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

The Fund industry is represented by CIFA whose mission is to promote and to render Cyprus as a competitive investment funds jurisdiction. CIFA represents the sector in economic missions organised by the Cyprus government around the world and takes an active part in principal meetings of the global fund industry. CIFA's activities are further supported by the Ministry of Finance and the regulatory authorities.

CIFA is a full member of EFAMA and an associate member of the International Capital Markets Association (ICMA).

*Cyprus' status as a fund jurisdiction was further bolstered in 2019 when Cyprus was awarded full membership of the International Investment Funds Association (IIFA), underlining the fact that the country operates within a rigorous legal framework that promotes transparency and protects investors.*



# WHY CYPRUS?

## Strategic Location

With its ideal geographical position at the crossroads of three continents - Europe, Africa and Asia - Cyprus plays a key stabilising role in the region of the Eastern Mediterranean. The island is an ideal investment gateway to the EU, as well as a portal for investment outside the EU, particularly into the Middle East, Eastern Europe, India and China.

## Legal and Regulatory Framework

Based on English Common Law principles, Cyprus' comprehensive and robust legal and regulatory framework is widely recognised as a business-friendly and effective system that ensures transparency and reliability in business practices. Offering foreign businesses a familiar and reliable framework within which to operate, Cyprus' legal system is also fully compliant with the EU, the Financial Action Task Force on Money Laundering (FATF), OECD, FATCA, the Financial Stability Forum laws and regulations and EU AML directives.

## EU Member State and Member of the European Monetary Union

As a member of the European Union since 2004 and the European Monetary Union since 2008, Cyprus is committed to quality, efficiency and transparency in transactions. Its EU membership ensures safety and stability for investors, also offering them market access to more than 500 million EU citizens.

## Strong Business Support and Professional Services

Cyprus is recognised as an international centre of excellence for the provision of a wide range of professional services, with highly qualified and experienced professionals offering efficient legal, accounting, auditing, consulting and other specialised services, at competitive costs.

## Tax System

Cyprus offers an attractive and transparent tax regime, fully compliant with EU, OECD and international laws and regulations.



### Human Capital & Level of Services

As a dynamic business centre, Cyprus offers an abundance of highly educated and skilled individuals, multilingual in their majority, ready to serve the needs of any business. Cyprus ranks amongst the top countries in Europe for tertiary education per capita. Complemented by a broad range of high-quality professional services, Cyprus' Human capital probably constitutes its most compelling advantage.

- *The youngest population & workforce in the EU*
- *55% of the workforce has a tertiary degree*
- *Businesses in Cyprus operate in English and 73% of Cypriots speak English*
- *Booming private education sector with English taught programmes*
- *Visa-free access to European talent*
- *Easy access to global talent with tax concessions aimed at attracting expatriates and their families.*

### Advanced Infrastructure

Cyprus benefits from advanced and modern infrastructure, as well as an extensive telecommunications network, ideally suited for business people with demanding schedules.

### High Quality of Life

Cyprus residents enjoy an enviable lifestyle in a safe, clean and healthy environment with high living standards. Low crime levels, year-round sunshine, centuries of art and culture, and a delicious gastronomy all contribute to a high quality of life.

### Low cost of doing business

- Lower labour costs for technical and professional talent than in other major EU capitals
- Among the lowest office rental rates in Europe
- Affordable critical business support services
- A number of Alternative Investment Fund Managers offer cost efficient fund hosting services

### MANAGEMENT COMPANY PLATFORMS

*There are a number of professional AIF Management Companies (AIFM) in Cyprus that provide fund hosting services. The platform solution provides investment managers a European passport to market their funds within the EU, without the need to establish their own management company.*

*Investment managers benefit from the efficiencies provided by the AIFM in terms of sharing costs, existing middle and back office operating models, tried and tested systems and speed to market. Using the hosting model, the investment manager focuses on running the investment strategy successfully in the knowledge that all regulatory and compliance requirements are taken care of by the AIFM.*



## TAXATION

Cyprus offers one of the most competitive tax regimes in Europe and has an extensive network of double taxation treaties (DTTs) with 65 countries. A member state of the European Union since 2004 and of the Eurozone since 2008, the country's regulatory regime is in full compliance with EU tax directives.

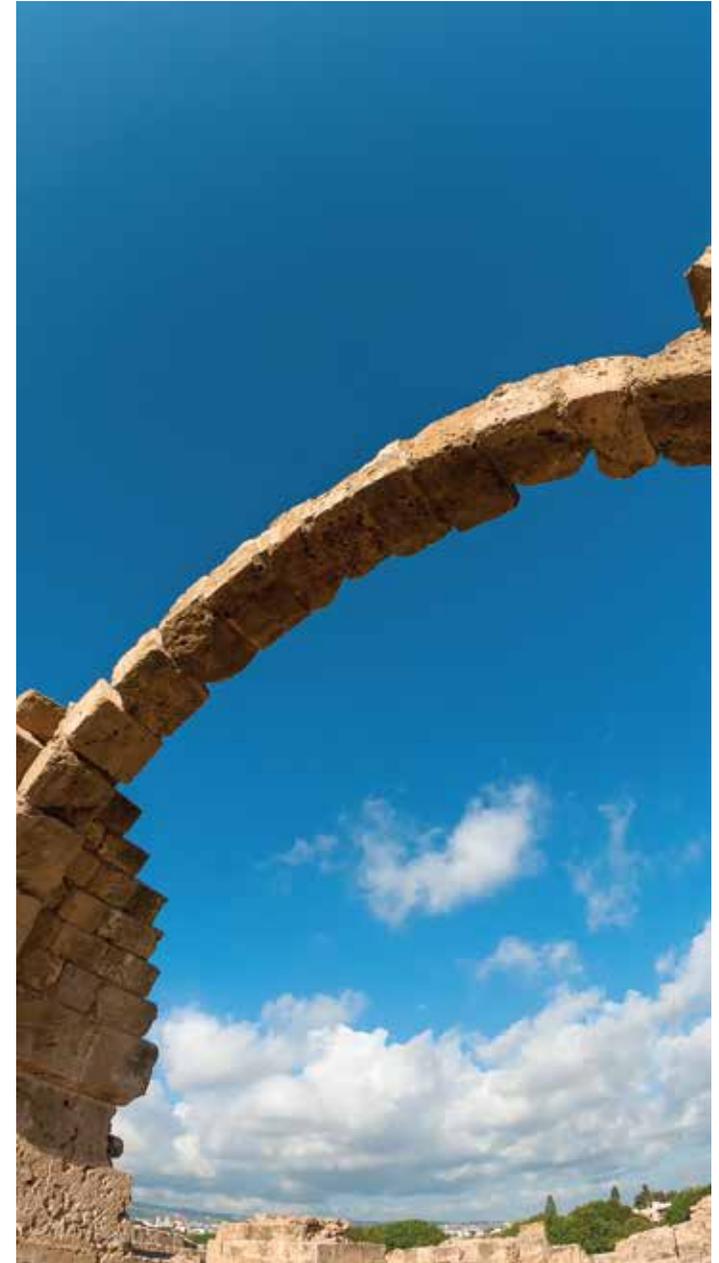
Cyprus was also an early adopter of the OECD Common Reporting Standard (CRS) and is FATCA-compliant. This coupled with one of the lowest corporate tax rates in the EU at 12.5%, places Cyprus high on the list of preferred jurisdictions for international tax planners.

### *Fund Taxation*

- *Favorable tax and regulatory regime, and extensive Double Tax Treaty network*
- *Gains from trading in securities are tax exempt*
- *Notional Interest Deduction (NID) for new equity may reduce taxable base for interest received by up to 80% (for company-type funds) reducing the effective tax on interest to 2.5%*
- *Excluded from tax are individuals, dividends received, capital gains arising from sale of shares of foreign property companies*
- *No subscription tax on the net assets of the fund*
- *Fund management services provided to AIF are not subject to VAT*
- *For tax purposes each compartment of an AIF is treated as a separate tax payer*

### *Foreign Investor Taxation*

- *No withholding tax on dividends*
- *No taxation or redemption of units*
- *No deemed distribution restriction*
- *No taxation on liquidation of fund*
- *No successions, inheritance or gift taxes*



## **INCENTIVES FOR FUND MANAGERS TO RELOCATE PEOPLE AND ACTIVITIES TO CYPRUS**

*The variable employment remuneration of certain employees and executives employed in Cyprus in investment fund management companies which is connected to the carried interest of the fund managing entity can be elected by them to be subject to the flat rate of tax of 8%, with a minimum tax liability of €10.000 per annum.*

*This special mode of taxation is available for a period of up to 10 years provided that the person claiming the election was not a Cyprus tax resident in the year preceding the year of commencement of his/her employment in Cyprus and he/she was not a Cyprus tax resident in any three out of the five tax years preceding the year in which his/her employment in Cyprus began.*

## **Concessions available to expatriates**

- *50% of the gross emoluments are allowed to be deducted from taxable income for individuals that were not tax residents of Cyprus prior to the commencement of their employment in Cyprus.*
- *This deduction applies when income exceeds €100.000 p.a. and is allowed for a period of ten years, commencing from the date of employment.*
- *The exemption is not given to an individual, who was a Cyprus tax resident in any three of five years preceding the year of employment and to an individual, who was resident in the year preceding the year of commencement of employment.*



## Main Features of Cyprus Alternative Investment Funds (AIF)

	AIFs with unlimited number of persons (externally managed by an AIFM)	AIFs with limited number of persons (externally managed by an AIFM)	Registered AIF (RAIF)
<b>Regulatory authority</b>	CySEC	CySEC	CySEC, however no licensing required
<b>Number of Investors</b>	Unlimited	Max 50 with look through provisions	Unlimited
<b>Marketing and distribution</b>	May be marketed to all types of investors. Possible to include retail investors, under conditions.	May be marketed only to 'professional investors' and/or 'well-informed investors'	May be marketed only to 'professional investors' and/or 'well-informed investors'
<b>Available structures</b>	May be set up as a limited liability company (with variable or fixed capital), a limited partnership* or a common fund	May be set up as a limited liability company (with variable or fixed capital) or a limited partnership*.	May be set up as a limited liability company (with variable or fixed capital), a limited partnership* or a common fund
<b>Minimum capital requirements</b>	No minimum initial capital	No minimum initial capital	No minimum initial capital
<b>Investment limits and restrictions</b>	Various investment limits, diversification rules and restrictions apply depending on the type of investors (professional & well informed or retail), the strategy classification of the AIF and the type of structure (open or closed ended).	No investment limits or restrictions.	No investment limits or limitations. However, RAIFs cannot be classified as loan originating, fund-of-funds or money market funds.
<b>Umbrella funds</b>	Can be set up as an umbrella with unlimited sub-funds.	Can be set up as an umbrella with unlimited sub-funds but the number of investors is limited to 50 over the entire AIF LNP	Can be set up as an umbrella with unlimited sub-funds.
<b>Depository requirements**</b>	Must in all cases appoint a depository/ custodian.	Not required to appoint a depository/ custodian if its assets do not exceed €5,000,000, the maximum number of investors is less than 5 and if its assets are not subject to custody	Must in all cases appoint a depository/custodian
<b>Listing possibility</b>	May be listed on stock exchanges	Cannot be listed on an exchange	May be listed on stock exchanges
<b>Passporting</b>	May be marketed throughout the EU by notification to CySEC	May be marketed throughout the EU by notification to CySEC	May be marketed throughout the EU by notification to CySEC

\*Proposed amendments to the current Partnership Law will allow the General Partner to elect for legal personality of the Limited Partnership upon its establishment

\*\*must be a credit institution, MiFID investment firm or other entity regulated and supervised as a Depository, or in case of assets which are not financial instruments within the meaning of MiFID, another entity which carries out depository functions as part of its professional or business activities. Must be located in Cyprus.

### AIF Legal forms

An AIF can take the following legal forms and may be established with limited or unlimited duration.



\*Amendments to the current Partnership Law will allow the General Partner to elect for legal personality of the Limited Partnership upon its establishment

\*\*Only when established as AIF with unlimited number of persons

### *Umbrella Funds*

*Umbrella Funds are established with several investment compartments, commonly called sub-funds, with each one constituting a separate pool of segregated assets not subject to 'cross-class liability'.*

*The fund constitutes a single legal entity and each sub-fund has its own separate Net Asset Value (NAV) calculation and issues units corresponding to its assets.*

*Rights of the unitholders of a specific sub-fund only arise from the assets of that compartment and each compartment is liable for the obligations arising from its constitution, operation or dissolution.*

*A compartment of an umbrella fund may invest in another compartment of the same umbrella fund subject to certain restrictions.*

*Each investment compartment may be dissolved or liquidated separately without affecting the operations of the others.*

### *Key benefits of Cyprus AIF*

- *Can be used to invest in substantially all types of assets*
- *AIFs with unlimited number of persons can be operated as RAIFs. RAIFs do not receive authorisation from CySEC but are regulated indirectly through the regulation of the manager.*
- *Full EU passporting rights. Cyprus AIF can be marketed and sold in other EU member states*
- *Cost-efficient to set-up and operate in Cyprus*
- *AIFM platforms available*
- *Low investment risk and internationally regarded as one of the most efficient asset management tools*
- *Robust legislative framework that protects and promotes investor interests*
- *Possibility to set up umbrella funds, allowing different sub-funds and share classes*
- *Investments are fully transparent and easy to monitor through publication of Net Asset Value (NAV)*
- *Highly skilled pool of multilingual professionals with international experience*

# OUR SERVICES

Our Fund services team is proud of its reputation as the leading firm providing fund advisory, administration and support services in Cyprus.

Our team of experts provide tailor made solutions that allow our clients to set up and manage the most appropriate fund structure for their needs.

## SET UP AND LICENSING SERVICES

- Establishment of AIFs and RAIFs
- Establishment of AIF management companies and advising throughout the licensing procedure
- Assisting in the drafting of the necessary procedures manuals to comply with the relevant laws and regulations
- Advising to ensure compliance with the applicable AIFM Laws
- Coordination of Securities Services Providers and other outsourcing solutions
- Drafting of the prospectus
- Preparation of business plans



## FUND ADMINISTRATION SERVICES

### Administrative Agent

- Accounting for all transactions and movements
- Portfolio valuations
- Checking investment restrictions
- Maintaining, storing and archiving accounting data
- Calculating taxes and levies
- Calculating and publishing net asset values
- Liaising with auditors, depositary and independent valuers
- Preparing financial statements in accordance with applicable accounting standards

### Transfer Agent

- Maintaining shareholder registers
- Registering and performing transactions (subscriptions, redemptions, conversions, transfers and distributions)
- Settling and monitoring transactions
- Applying the anti-money laundering and counter-terrorism financing (AML) rules and control procedures
- Identifying clients (KYC/risk management)

### Domiciliation and Client Communications Agent

- Registered offices
- General secretariat and administrative management
- Correspondence management
- Organising board meetings
- Organising shareholder meetings
- Managing notifications, notices, and legal announcements
- Managing invoices
- Maintaining, storing, archiving and destroying documents
- Managing the secure access to confidential data
- Assisting you to identify corporate officers with the relevant experience

## About BDO

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BDO is recognised in the market as a global network providing high quality advice and service to all BDO clients on a consistent basis. In 2018 we became the IAB's Network of the Year for the second time in three years.

The network's objective is to continually improve clients' experience of BDO and the BDO Member Firms work together to optimise their service delivery to all clients, national and international, wherever they operate.

In particular, BDO Member Firms give you effective support as you expand into new areas of the world. They enjoy access to knowledge of industry developments and international trends throughout the global network and combine their local knowledge and experience with an understanding of the international context to provide a global service.

BDO is committed to a long-term partnership as your trusted adviser and looks for sustainable relationships and to help grow the businesses of all clients, regardless of your location, size or international ambitions.

## CONTACTS

Please contact us for a free consultation to discuss your requirements and how BDO can help you meet your objectives.

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