

Introducing the Cyprus Investment Funds



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LAW FIRM

2022

Introducing the Cyprus Investment Funds Background Overview



Cyprus has become one of the fastest growing investment fund centres in Europe as a result of its continuous efforts to upgrade its legislative and regulatory regime. Cyprus, by virtue of being an EU member state since 2004, has transposed both the Undertakings for Collective Investment in Transferable Securities Directive (UCITS V) and the Alternative Investment Fund Managers Directive (AIFMD) into national law, thus ensuring full compliance with the EU Funds related legislation. The current regulatory framework provides for higher transparency, enhanced risk management and liquidity provisions as well as lower set-up costs compared to other EU jurisdictions.

In an effort to further enhance and grow the Cyprus Investment Funds Industry, the Cyprus Investment Funds Association (“CIFA”) has been incorporated in 2013 to which our firm is a member. CIFA has established close cooperation with the competent Regulatory Authorities, the Ministry of Finance as well as all relevant Industry Associations and Professional Bodies. At an international level, CIFA was granted full membership of the European Fund and Asset Management Association (EFAMA).

Setting up an investment fund in Cyprus is a simple process. The Cyprus Securities and Exchange Commission (“CySEC”) is the regulatory authority responsible under the Law for the licensing and supervision of Investment Funds for both Undertakings for Collective Investment in Transferable Securities (“UCITS”) and Alternative Investment Funds (“AIFs”) as well as any other type of Investment Fund. The commencement of operations of Investment Funds requires authorisation from CySEC. The timeframe for the licensing process is approximately 3-4 months from the date of submitting the application.

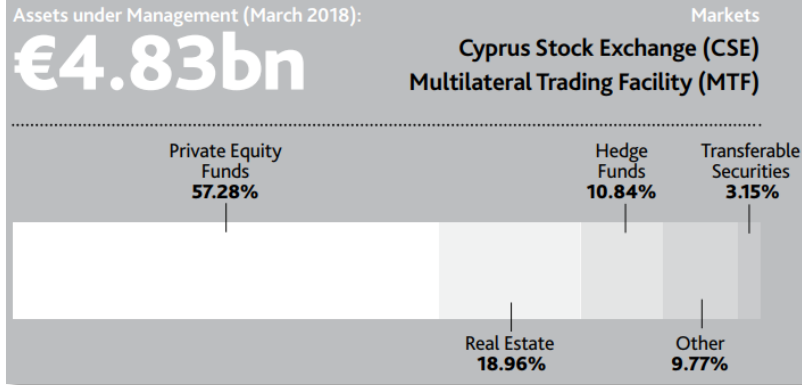
Cyprus’ comprehensive tax treaty network with 64 countries, along with a number of other notable benefits, has rendered the country attractive for investment funds primarily into Russia, Eastern Europe and Africa. More generally the tax framework offers interesting tax planning opportunities and key advantages for funds following investment strategies in emerging markets.

The increasing number of applications being received by the CySEC for Cyprus Investment Firms (CIFs) is indicative of the enduring attraction of Cyprus as an investment base. The number of CIFs has registered an impressive increase over the years, surging from 50 in 2005 to 245 in 2018, with the trend expected to continue. Currently, there are 8 UCITS and 125 AIFs licensed by CySEC. Cyprus has seen a formidable growth momentum, with assets under management more than doubling from €2,1 billion in 2012 to €4,8 billion in March 2018.

Cyprus is continuing to upscale its legal and regulatory framework in an effort to keep the jurisdiction at the forefront of fund managers’ and investors’ minds. The Registered AIF and the Limited Partnership with legal personality introduced in 2018 with the replacement of the relevant AIF Law are two examples of the way that the investment funds space is improving in terms of innovation and regulation. Both developments will help streamline the set-up of investment fund vehicles, while also keeping costs down and adopting a risk-based approach to investor protection and regulation.

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Key Facts & Figures



International Memberships

- International Organization of Securities Commissions (IOSCO)
- European Securities and Markets Authority (ESMA)
- European Fund and Asset Management Association (EFAMA)
- European Systemic Risk Board (ESRB)
- International Capital Markets Association (ICMA) - Associate Member

Memoranda of Understanding (MoU)

- Bilateral MoU with 19 Regulatory Authorities for the exchange of Information
- Bilateral MoU with 47 Supervisory Authorities outside the EU for enhanced supervision of Alternative Investment Fund Managers
- Full signatory of the IOSCO and ESMA Multilateral MoU
- MoU with the Chartered Institute for Securities & Investment (CISI)

Source: Investment Funds Guide 2018 issued by CIFA

Regulated Entities

| | 31 July 2018 | Pending up to 31 July 2018 |
|----------------------------------|--------------|----------------------------|
| Cyprus Investment Firms | 245 | 23 |
| Administrative Service Providers | 165 | 12 |
| Total | 410 | 35 |

Listed Companies

| | 31 July 2018 | Pending up to 31 July 2018 |
|---|--------------|----------------------------|
| Issuers of securities trading on the CSE | 67 | 0 |
| Issuers of securities listed on other regulated markets | 13 | 0 |
| Total | 80 | 0 |

Management Companies and Funds

| | 31 July 2018 | Pending up to 31 July 2018 |
|--|--------------|----------------------------|
| UCITS Management Companies | 4 | 1 |
| Authorised External Fund Managers | 21 | 8 |
| Special Purpose Entities | 10 | 0 |
| UCITS Funds | 8 | 4 |
| Authorised External Fund Managers | 1 | 4 |
| Registered AIF Funds | 1 | 4 |
| Registered AIFLNP Funds (Internally Managed) | 64 | 20 |
| AIF Funds (Externally Managed) | 23 | 22 |
| AIFLNP Funds (Externally Managed) | 38 | 1 |
| Total | 170 | 64 |

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Types of Investment Funds

Undertakings for Collective Investments in Transferable Securities (UCITS)

UCITS are defined, as any organisation whose sole aim is the collective investment in transferable securities, or in other liquid financial assets of capital raised from the public, and whose operation is based on the principle of risk-spreading and whose units are, at the request of holders, repurchased or redeemed, directly or indirectly out of the UCITS assets.

UCITS are established and authorised under the harmonised EU legal framework, UCITS V EU Directive and governed by The Open-Ended Undertakings for Collective Investments Law of 2012 (Law N78 (I) 2012), as amended in April 2016.

Alternative Investment Funds (AIFs)

A collective investment undertaking raising external capital from a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and that has not been authorized as a UCITS.

AIFs are governed by the Alternative Investment Funds Law of 2018 – N.124 (I) 2018, as amended, and is fully harmonised with the latest EU directives on asset management, transparency and investor protection.

AIFs may be exempted from the requirement to appoint a depositary (subject to approval by the CySEC) provided one or more of the following are applied:

- Assets under management do not exceed €5 million; or
- There are only few investors (no more than 5) and their number is not expected to increase in the future; or
- The assets under management of the AIF do not include assets subject to custody (e.g. real estate) which exceed 10% of the total value of the portfolio, the total number of investors is limited to 25 physical persons, and there is a minimum investment amount is €500.000 per investor.

Registered Alternative Investment Funds (RAIFs)

An AIF which complies with the provision of Section VIII of the Alternative Investment Funds Law of 2018 – N.124 (I) 2018, as amended.

RAIFs do not require licensing or authorisation by CySEC, provided they are externally managed and therefore supervised by CySEC at the level of the investment manager.

An AIF may operate as a RAIF provided that all of the following are applied:

- Externally managed by either an AIFM, a sub-threshold AIFM, a MiFID investment firm or a UCITS management company;
- Exclusively addressed to professional/well informed investors;
- The Instruments of Incorporation/Rules expressly indicate that it is subject to the application of the provision of Part VIII of the Law;
- It is registered in the special Register maintained by CySEC (RAIF Register).

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Main Features and Characteristics (1 of 3)

| | UCITS | AIF, unlimited number of investors | AIF with limited number of investors ("AIFLNP") | AIFLNP operating without a depository | Registered AIF ("RAIF") |
|----------------------------------|---|--|---|---|--|
| Regulatory Framework | The Open - Ended Undertakings for Collective Investments Law of 2012 (Law N78 (I) 2012, as amended) | The Alternative Investment Funds Law of 2018 (N.124 (I) 2018, as amended) | The Alternative Investment Funds Law of 2018 (N.124 (I) 2018, Section VII, as amended) | The Alternative Investment Funds Law of 2018 (N.124 (I) 2018, Section VII, as amended) | The Alternative Investment Funds Law of 2018 (N.124 (I) 2018, Section VIII, as amended) |
| Regulator | CySEC | CySEC | CySEC | CySEC | CySEC is supervising the RAIF's Alternative Investment Fund Manager ("AIFM") |
| Legal form | <ul style="list-style-type: none"> ▪ Variable Capital Investment Company ("VCIC") ▪ Common Fund ("CF") | <ul style="list-style-type: none"> ▪ VCIC ▪ Fixed Capital Investment Company ("FCIC") ▪ CF ▪ Limited Partnership ("LP") with or without separate legal personality | <ul style="list-style-type: none"> ▪ VCIC ▪ FCIC ▪ LP with or without separate legal personality | <ul style="list-style-type: none"> ▪ VCIC ▪ FCIC ▪ LP with or without separate legal personality | <ul style="list-style-type: none"> ▪ VCIC ▪ FCIC ▪ CF ▪ LP with or without separate legal personality |
| Eligible asset categories | <ul style="list-style-type: none"> ▪ Transferable securities ▪ Money market instruments ▪ Open ended collective investment schemes ▪ Deposits with eligible credit institutions ▪ Financial derivative instruments | No restrictions | No restrictions | No restrictions | No restrictions except when the RAIF is not managed by an AIFM, whereby: <ul style="list-style-type: none"> ▪ the RAIF must invest at least 70% in non-liquid assets; and ▪ must be closed-ended |

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Main Features and Characteristics (2 of 3)

| | UCITS | AIF, unlimited number of investors | AIF with limited number of investors ("AIFLNP") | AIFLNP operating without a depository | Registered AIF ("RAIF") |
|--|---|---|---|---|---|
| Minimum initial capital | <ul style="list-style-type: none"> ▪ €200.000 if externally managed ▪ €300.000 if self-managed (applies to each investment compartment when the UCITS is established as an umbrella fund) | <ul style="list-style-type: none"> ▪ No requirement if externally managed ▪ €125.000 if self-managed (applies to each investment compartment when the AIF is established as an umbrella fund) | <ul style="list-style-type: none"> ▪ No requirement if externally managed ▪ €50.000 if self-managed | <ul style="list-style-type: none"> ▪ No requirement if externally managed ▪ €50.000 if self-managed | No requirement |
| Assets under management ("AuM") | No threshold | Minimum: €500.000 Maximum: N/A (restrictions may exist depending on investment policy and type of investors) | Minimum: €250.000 Maximum: €100 million including leverage, or €500 million (5 year lockup without leverage) | Minimum: €250.000 Maximum: €100 million including leverage, or €500 million (5 year lockup without leverage) | Minimum: €500.000 Maximum: N/A (restrictions may exist depending on investment policy and type of investors) |
| Net Asset Valuation ("NAV") | At least every fortnight on the first business date | At least twice per year | At least twice per year | At least twice per year | At least twice per year |
| No. of investors | Unlimited | Unlimited | ≤ 50 | ≤ 5 | Unlimited |
| Eligible investors * | <ul style="list-style-type: none"> ▪ Professional ▪ Well informed ▪ Retail | <ul style="list-style-type: none"> ▪ Professional ▪ Well informed ▪ Retail | <ul style="list-style-type: none"> ▪ Professional ▪ Well informed | <ul style="list-style-type: none"> ▪ Professional ▪ Well informed | <ul style="list-style-type: none"> ▪ Professional ▪ Well informed |
| Investor shares | Freely transferable | Freely transferable | Freely transferable provided that their transfer does not result in >50 investors | Freely transferable provided that their transfer does not result in more than 5 investors | Freely transferable |

* As per definition set out in legislation

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Main Features and Characteristics (3 of 3)

| | UCITS | AIF, unlimited number of investors | AIF with limited number of investors ("AIFLNP") | AIFLNP operating without a depository | Registered AIF ("RAIF") |
|---|--|---|---|---|--|
| Redemption period | No more than 4 business days | In accordance with the Fund's rules | In accordance with the Fund's rules | In accordance with the Fund's rules | In accordance with the Fund's rules |
| Minimum number of Directors (all should be 'fit and proper') | 4 (2 executives & 2 non-executives) | Internally Managed: 4 (2 executives & 2 non-executives) Externally Managed: Not specified but in practice 3 (1 executive 2 non-executives) | 3 (1 executive 2 non-executives) | 3 (1 executive 2 non-executives) | Not specified but in practice 3 (1 executive 2 non-executives) |
| Investment Manager Requirements | <ul style="list-style-type: none"> Can be self-managed by their Board of Directors (in the case of a company) or appoint a fund manager (holder of advanced certification by CySEC). Can be externally managed by an Investment Management company licensed by CySEC. | | | | |
| Depository Requirements | A Financial Institution in Cyprus or a Foreign Financial Institution with a Branch in Cyprus | A Financial Institution based in Cyprus, EU or third country | A Financial Institution based in Cyprus, EU or third country | Not Applicable | A Financial Institution based in Cyprus, EU or third country |
| Key Reporting Requirements to CySEC | <ul style="list-style-type: none"> Semi annual (unaudited) Financial Statements ("FS") Annual (audited) FS Quarterly Statement of assets and liabilities Quarterly Statistical reporting to Central Bank of Cyprus ("CBC") Monthly AML Prevention Statement | <ul style="list-style-type: none"> Semi annual (unaudited) FS Annual (audited) FS Quarterly Statistical reporting to CBC Monthly AML Prevention Statement | <ul style="list-style-type: none"> Semi annual (unaudited) FS Annual (audited) FS Quarterly Statistical reporting to CBC Monthly AML Prevention Statement | <ul style="list-style-type: none"> Semi annual (unaudited) FS Annual (audited) FS Quarterly Statistical reporting to CBC Monthly AML Prevention Statement | <ul style="list-style-type: none"> Not applicable, but the AIFM will put forward its own requirements |

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Why set-up in Cyprus?

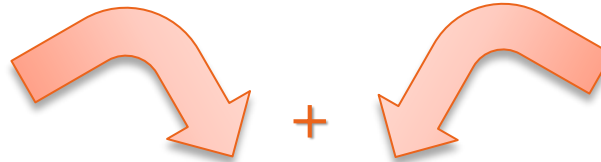


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Key benefits

UCITS

- Full EU passporting rights, Cyprus UCITS can be marketed in all EU member states
- Cost-efficient to set-up and operate
- Low investment risk and internationally regarded as one of the most efficient asset management tools
- Continuous professional management by a team of experienced and reputable financial experts, with the knowhow to determine investment opportunities both in Cyprus and in international markets
- 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 daily publication of Net Asset Value (NAV)
- Upon request, investors are entitled to repurchase or redeem their units from the assets of the UCITS
- Supervised by a competent and accessible regulatory authority



AIFs

- Most income of a Cyprus tax resident Fund is tax free (e.g. most dividend income, capital gains)
- Interest income is taxable, but effective tax can be significantly reduced (taking into account the NID on new equity)
- Tax resident funds are eligible to all benefits under a double tax treaty or the EU Directives
- Services provided by the Investment Manager of the fund are not subject to VAT
- No withholding tax on any type of payments to non-residents
- No subscription tax on net assets of a fund
- No capital gains tax on disposal of shares/units by the holders
- No tax on capital gains from the sale of immovable property located outside Cyprus
- Extensive network of Double Tax Treaties in place with more than 60 countries

- Cost-efficient and simple to set-up, manage and operate
- Modern regulatory framework fully in line with relevant EU directives and no burdensome reporting requirements
- Full transparency through annual audited and half yearly reports to CySEC and investors, which include financial statements, borrowing information, portfolio information and Net Asset Value
- Supervised by a competent and accessible regulatory authority
- Reduced reporting requirements
- No restrictions imposed by the Regulator on type of investments
- May be self-managed (subject to the approval of the Regulator)
- May be set-up as umbrella funds with multiple compartments
- RAIFs not subject to CySEC authorisation and supervision

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The Cyprus Tax Framework



The Cyprus tax regime is efficient, straightforward and fully transparent, providing an excellent framework for the operation of international businesses. The tax system is one of the most favourable in the EU, featuring a 12,5% corporate tax rate as well as the tax-exempt status of gains from the sale of securities and dividends received from overseas.

Such beneficial provisions, coupled with the affordable costs of the high-level professional services offered, render Cyprus an attractive destination for investors from all over the world.

Cyprus' tax laws have been duly amended to incorporate all EU directives, including the Interest and Royalty Directive, the Parent-Subsidiary Directive, the Directive on Mergers and the Directive on Administrative Cooperation.

Tax Highlights

- One of the lowest corporate tax rate in the European Union (12,5%);
- Extensive Network of Agreements for Avoidance of Double Taxation (~ #64), which provides, amongst others, unilaterally awarded double tax relief by means of credit;
- Full access to all tax beneficial EU directives;
- No taxation arising in Cyprus for profits realised from the disposal of Securities (shares, bonds, debentures and other type of similar securities);
- No withholding taxes levied on outgoing overseas payments (dividends, loyalty, interest);
- Infinite profit parking in Cyprus companies where the shareholders are non-Cyprus tax residents;
- Foreign Permanent Establishment profits are tax exempt;
- Foreign capital gains are exempt;
- Notional interest deduction up to 80% of the taxable income;
- Dividend income fully exempt in Cyprus (subject to meeting one of two exemption conditions);
- Dividend payments made by the Cyprus holding company are not subject to any withholding tax in Cyprus;
- Reduced or zero withholding taxes on the payments of dividends from Ukraine/Poland/EU countries based on the provisions of the respective Double Tax Treaty or the provisions of the EU Parent Subsidiary Directive;
- A competitive IP Tax Regime;
- Foreign Exchange gains are tax exempt;
- Competitive VAT rates;
- Tailor-made provisions for the fund industry;
- Advanced Tax Ruling system.

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Our Services

| | Formation/Set-up Stage | Post-licensing Stage |
|------------------------------|--|--|
| Licensing Services | <ul style="list-style-type: none"> Assessment of investment funds alternative forms Preparation and submission of application package, incl. liaising with CySEC and follow-up | <ul style="list-style-type: none"> Ongoing reporting to Regulator |
| Fund Administration Services | <ul style="list-style-type: none"> N/A | <ul style="list-style-type: none"> Fund accounting* Net Asset Valuations* Regulatory reporting Risk Management |
| Corporate Services | <ul style="list-style-type: none"> N/A | <ul style="list-style-type: none"> Secretarial Registered Office Physical substance (office space and related support) |
| Legal Services | <ul style="list-style-type: none"> Company registration | <ul style="list-style-type: none"> Ongoing legal support |
| Audit Services | <ul style="list-style-type: none"> N/A | <ul style="list-style-type: none"> Annual external Audit and interim reviews* Internal Audit* |
| Tax Services | <ul style="list-style-type: none"> Assessment and identification of beneficial tax structure | <ul style="list-style-type: none"> Annual tax compliance* |
| Other Services | <ul style="list-style-type: none"> Provision of fit and proper Directors | <ul style="list-style-type: none"> Provision of Cypriot licensed investment manager or investment manager services through licensed Management Company or AIF Management firm |

* Provided by VGDA Accountants Limited

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