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**ALTERNATIVE
INVESTMENT FUNDS**

 **ELIAS**
NEOCLEOUS
& Co LLC

CYPRUS AND THE REGIME ON ALTERNATIVE INVESTMENT FUNDS AND THEIR MANAGERS

The new Alternative Investment Funds Law (Law 124(I)/2018), has expanded and enhanced the sound, modern, flexible and sophisticated legal and regulatory framework of the Cyprus funds industry. The law, together with the Law on Alternative Investment Fund Managers (Law 56(I)/2013), which implemented the EU-wide framework on managers of alternative investment funds, gives Cyprus a competitive edge by enhancing the already attractive business environment of the island, and developing it into a sound and attractive European financial centre.

Alternative investment funds (AIFs) and their Cyprus-based managers (AIFMs) are under the supervision of the Cyprus Securities and Exchange Commission (CySEC), which authorizes and monitors their operations. The enhanced AIF regime provides investors with high quality structuring possibilities, which open the door to innovative, advantageous and protective mechanisms, including the newly introduced form of AIF, known as the registered AIF, or RAIF, aimed at reducing the time and cost involved in establishing an AIF in Cyprus. In line with the objectives of the relevant EU directives, asset management, transparency and investor protection are the three main areas of focus of the regulatory framework.

CYPRUS AND ITS BENEFITS

As a member of the European Union, Cyprus has developed its legal and regulatory framework to meet all the demands of today's global, interconnected economic and business environment. Cyprus, as a Common Law jurisdiction, has a flexible legal system, which enables it to adapt to new developments and requirements, incorporating and absorbing change in an organic manner. In addition, investing in Cyprus offers significant tax advantages including:

- Exemption from tax on profits on disposal of shares and other financial instruments *
- No capital gains tax on disposal of units by the unit holders *
- No subscription tax on net assets of a fund
- No withholding tax on dividends paid to non-Cyprus tax resident unit holders
- A network of more than 60 double tax treaties and
- 12.5% corporate tax rate, among the lowest in the EU

* Provided that the fund does not hold directly or indirectly immovable property situated in Cyprus.

AIFs with Unlimited Number
of Persons are THE MOST WIDELY
MARKETABLE FORM OF AIF,
available to all categories
of investor.



LEGAL FORMS OF AN AIF

- Fixed Capital Company
- Variable Capital Company
- Limited Partnership (with or without a separate legal personality)
- Common Fund

An AIF with an unlimited number of persons can utilize any of these legal forms. An AIF with a limited number of persons (up to 50) can only take the form of a company or a limited partnership.

AIFS WITH UNLIMITED NUMBER OF PERSONS

The main features of an AIF with Unlimited Number of Persons are as follows:

- Its units or shares can be marketed to any category of investor.
- There are no restrictions on transfer of investors' units or shares.
- It must appoint a depositary such as a credit institution, a MiFID investment firm; or another company that is subject to prudential supervision. The depositary can be within the EU or, subject to specific conditions, in a third country.
- Its units or shares can be listed on a recognized stock exchange.
- It is subject to a minimum assets requirement of €500,000 and, if self-managed, a minimum capital requirement of €125,000.
- Investment restrictions may apply depending on the investor type and the overall investment policy.
- It can be established with an unlimited number of investment compartments such as sub funds, each with a different and separate investment strategy and asset pool; and
- It may be managed by an investment manager authorized under the AIFM Law of 2013, or the equivalent from another EU member state (via the UCITS IV Directive).

AIFs with Limited Number
of Persons GIVE GREATER FLEXIBILITY,
and are available
to professional and
well-informed investors.



AIFS WITH LIMITED NUMBER OF PERSONS

The main features of an AIF with Limited Number of Persons are as follows:

- It can be marketed only to well informed or professional investors:
- A professional investor, as defined within the MiFid Directive, is an investor who possesses the experience, knowledge and expertise to make his or her own investment decisions and properly assess the risks that these entail.
- A well-informed investor, as defined within the AIF Law, is an investor who does not qualify as a professional investor and who invests a minimum of €125,000 in the AIF.
- It is subject to a minimum assets requirement of €250,000 and if self managed a minimum capital requirement of €50,000.
- The number of investors or unit holders is limited to 50.
- Investor units are freely transferable, provided that any transfer will not result in the AIF having more than 50 investors.
- The AIF can be managed externally or it can be self-managed. For an AIF to be self-managed it should be established as a company or as a limited partnership with a separate legal personality; and
- It may not be required to appoint a custodian if any of the following requirements apply:
 - (i) its total assets are less than €5 million; or
 - (ii) it has five or fewer investors; or
 - (iii) the value of its assets which are eligible for safekeeping do not exceed the threshold of 10% of the total portfolio of assets under management and it has no more than 25 investors, each of which has invested at least €500,000.
- The assets under management do not reach the threshold for AIFM registration set in the AIFM Law being €100m (with leverage) or €500m (without leverage, with a lock up period of 5 years).

AIFs which are externally managed by an AIFM
established in an EU member state
DO NOT REQUIRE AUTHORISATION FROM CYSEC



OUR SERVICES

The financial services, legal and tax professionals who make up our Funds Advisory team can assist you with:

- Legal, regulatory and tax advice on establishment and structuring options, to enable you to take an informed decision
- Obtaining any necessary regulatory licence from CySEC, and dealing with all stages of the regulatory process, from preparing and filing the application up to the granting of the regulatory approval
- The selection of key parties of an AIF or AIFM and the outsourcing of operational requirements including administration, management, depositary, compliance and audit services through our extensive network of professional service providers
- On - going legal, tax and regulatory advice and assistance on the operations of any AIF or AIFM in Cyprus

REGISTERED AIFS (RAIFS)

The main features of a RAIF are as follows:

- AIFs which are externally managed by an AIFM established in an EU member state do not require authorisation from CySEC to operate in Cyprus. A mere notification to CySEC is sufficient and will result in immediate registration in CySEC's RAIF Register, with corresponding ability to commence operations.
- Whilst it is necessary to appoint a local depositary, supervisory functions are left to the AIFM.
- There are no minimum capital requirements.
- AIFs which are externally managed by an AIFM are subject to a minimum asset requirement of €500,000.
- It may be open or closed ended, stand alone or part of an umbrella structure.
- It may take the form of a mutual fund, an investment company with fixed or variable capital, or a limited partnership (which has been expanded by the recent amendments to provide for a limited partnership with separate legal personality).



Elias Neocleous & Co LLC is the largest law firm in Cyprus and is internationally recognised as a leading law firm in the South-East Mediterranean region.

We are the only Cyprus firm selected for Legal Business magazine's "Euro Elite" top 100 firms in Europe. We have more than 140 fee-earners and management team whose skills we leverage to assist clients. We serve clients out of three offices in Cyprus and out of an international network of offices in the main destinations for investment via Cyprus.

Our staff have unmatched experience in assisting clients in cross-border investment projects in Europe, Asia, Africa and the Americas. Our attention to client service is what sets us apart. For us the client comes first.

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