

# CYPRUS: A WELL-EQUIPPED DOMICILE FOR ALTERNATIVES

ALKIS KAILOS, OF ALTER DOMUS, REFLECTS ON THE ADMINISTRATION AND IMPLEMENTATION OF ALTERNATIVE FUNDS IN CYPRUS



**Alkis Kailos** is director and country executive at Alter Domus Cyprus. Before joining Alter Domus, he was the audit partner of Ecovis KLA Partners (Audit and Business Services) Ltd, and prior to that was an audit director with Deloitte Cyprus. His academic credentials include a Bcs in Economics with a Major in Accounting. He is a Fellow Member of the Institute of Chartered Accountants in Australia. He is also a member of the Society of Trust and Estate Practitioners, holding the designation of a TEP.

**HFMWeek (HFM): What are the key fund administration responsibilities for AIF and non-Ucits funds?**

**Alkis Kailos (AK):** Under the Alternative Investment Fund Manager Directive (AIFMD), all management and administration of funds are the responsibility of the AIFM. The fund administrator duties depend on what each AIFM wishes to delegate. Most commonly, the following administration functions are delegated:

- **Transfer agency and registrar,** including the performance of due diligence and identification of investors entering the fund, maintenance of the investor registers, processing of subscriptions, transfers and redemptions and other investor related information
- **NAV determination:** as an independent third party, the fund administrator performs the accounting and valuation of the net assets of the funds to be used on each valuation day for subscriptions and redemptions. As part of this process, the various fees payable to the AIFM by the fund – such as the management and performance fees – are calculated
- **Investor communication** for circularisation of various common documentation relevant to the investors such as holding valuations, subscription/redemption confirmations, periodic investment updates prepared by the AIFM, distribution of the annual and semi-annual reports required by law
- **Reporting,** which includes assistance with the preparation of various reports addressed to the regulator, the depository or the investors on behalf of the fund and provision of financial information of the AIF to the AIFMD for its own reporting purposes.

Due to a fund administrator's central positioning in the operations of the fund, the administrator usually also acts as the main point of contact with other third parties as well, such as the auditors, the custodian/depository, the regulator and the bankers.

**HFM: What are your views on the upcoming fund administrator's regulation pending enactment in Cyprus?**

**AK:** Indeed, there is currently a regulation being drafted to regulate the fund administration industry in Cyprus, which as of now is an unregulated function. The regulator

of fund administrators will be the Cyprus Securities and Exchange Commission (Cysec), also currently regulating Administration Service Providers, CIFs, AIFMs, AIFs and other entities.

The new legislation is expected to regulate entities offering fund administration to funds, both domiciled in Cyprus or elsewhere, and to introduce a number of requirements for entities wishing to act as fund administrators, similar to what other fund jurisdictions require. Requirements relate to minimum staffing, capital requirements, insurance covering, periodic regulator reporting, internal auditing and more.

In our view, the new regulation is a positive step forward, enhancing the country's offering as a competitive funds jurisdiction to AIFMs. The new regulation is expected to enhance the reliability of fund administrators acting in the market and offer assurance to AIFMs choosing Cyprus as their AIFs jurisdiction or appointing a fund administrator regulated in Cyprus to act on their foreign funds.

**HFM: What guidance does Alter Domus provide to clients launching AIFs for the first time?**

**AK:** Alter Domus is involved in the set up of funds very early in the procedure. We initially ensure that the relevant parties are on board with the process, such as legal advisers for the drafting of the documentation and tax advisers for reviewing and advising on efficient selection of the various structuring options offered through the legislation. Where the client does not already have such contacts, we assist in the identification of a number of such candidates for the AIFM's consideration and selection.

We remain active throughout the initial set up process, coordinating all parties and at the same time ensuring that the policies, processes developed and ultimately the documentation generated will on one side be in line with several legal and structure specific requirements but also, most significantly, ensure that the end product will be efficient and appropriate in its day-to-day operation, avoiding processes that would make the fund unworkable or inefficient.

For new and emerging AIFMs such assistance is crucial, since usually their resources are limited when setting up their track record or initial structure, and Alter Domus' experience in the setting up of such structures ensures that future shortcomings are avoided.



**HFM: What alternative structures are Alter Domus currently experiencing the greatest interest in and why?**

**AK:** As a group, Alter Domus took the decision in 2014 to withdraw from the administration of highly liquid funds such as Ucits, and instead focus its resources on the administration of AIF's and other non-Ucits funds such as real estate, private equity and debt.

Within our scope, we see a significant increase in interest shown towards real estate funds these days, especially those investing in emerging countries. It seems that the current uncertainty in the banking sector and low returns on deposits are driving investors to seek investments on tangible assets with higher yields.

In terms of structuring, we see the AIF for Limited Number of Investors, an AIF variation in Cyprus which is a 'light' version of the AIF, being the preferred version of regulated fund used, due to its versatility and cost efficiency.

Of course, we expect the registered AIF, the implementation of which is anticipated, to be equally, if not more popular than the AIFLNP in the years to follow.

**HFM: How do you anticipate the AIF fund space developing in Cyprus post-Brexit?**

**AK:** There is currently a high degree of uncertainty over what the future of the UK and the passporting of its

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AIFMs and investment structures will be following Brexit. This has already led to a number of UK-based AIFMs assessing their options with their structures within the EU, which has created interest in Cyprus as well.

Cyprus is very well placed to become the onshore solution for UK AIFMs wishing to relocate such operations within the EU for a good number of reasons:

- The judicial system in Cyprus is under Common Law, being simple and sharing large parts with the existing legal system of the UK;
- The country is an established business centre, the infrastructure for hosting the new structures is in place;
- Cyprus has an abundance of professionals qualified in the UK or who hold UK qualifications, such as lawyers and accountants;
- English is widely used as a second language within the island, and many government authorities accept documentation in the English language, including CySec;
- Versatile funds legislation further modernised with new legislation such as the Raif, the mini-manager and the Limited Liability Partnership;
- More than 50 tax treaties currently in place with other jurisdictions, making structuring through Cyprus further desirable;
- A cost efficient jurisdiction, facilitating start-ups and track record structures of emerging AIFMs. ■