

Cyprus: An Agile and Robust EU Fund Jurisdiction

Over the past few years, the Cyprus investment fund industry has been developing at an impressive pace. Taking notice of the industry's rapid growth, asset managers are expressing keen interest in Cyprus as a robust and flexible fund and asset management jurisdiction. Recently, Alter Domus' Cyprus office organised a webinar highlighting the country's current advantages as a fund domicile, and its role in the future of the industry.



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A rapidly growing fund domicile

Cyprus' fund and asset management industry has been growing rapidly in recent years, with increases in the number of alternative investment fund managers and other asset managers establishing a physical presence on the island, as well as founding corporations.

According to Christos Vasiliou, Managing Director of KPMG Cyprus, "In 2020, the total number of Registered Alternative Investment Funds (RAIFs) increased by 40, showing the strong resilience of Cyprus' fund industry during the first year of the pandemic. The RAIF regime allows a manager to launch a fund product without having to go through the authorisation process of CySEC, making it an efficient and cost-effective option for start-up managers. The CySEC relies on the regulated status of the fund manager to ensure compliance and indirect supervision of applicable laws by the fund. It is expected that the RAIF regime will continue to enjoy its rapid rate of expansion."

Acknowledging the increasing role of investment funds in the development of infrastructure, health care and education, Cyprus is promoting constant, innovative change in its tax and regulatory framework to accommodate the continuously evolving international environment.

Vasilou notes, "Cyprus is an emerging funds centre in Europe, and its financial services sector will continue to expand in terms of size, reputation and attractiveness – marked by a resilient regulatory framework, proven supervision, consumer protection and strong money laundering prevention mechanisms."

Roles and functions of fund managers in Cyprus

Prior to obtaining a CySEC license as an AIFM, all fund managers must demonstrate that they have sufficient staff, procedures, systems, and the necessary regulatory share capital in place. In addition, the directors and officers need to meet a "fit and proper" test.

WEBINAR SYNOPSIS

When appointing an external fund manager in Cyprus, the initiator can either delegate the entire task of fund management to the external fund manager, who will take up – from a to z – all of the fund management requirements in line with the investment strategy outlined in the Offering Memorandum; or set up a regulatory hosting arrangement, where the fund manager will provide the regulatory framework on behalf of the initiator. The latter is an option for individuals with a good investment idea who may not hold the appropriate license, or an international manager (perhaps based in Asia or the US) who wants to reach European investors and markets.

“One point to note is that in the case where a service is delegated to a third party, that delegated service will still remain the responsibility of the fund manager, who is ultimately responsible for the oversight and performance of that service. In light of this, fund managers are very diligent in making sure that service providers are licensed to provide that service, and have the necessary expertise, skill, personnel and procedures in place,” remarks Alkis Hajittofis, Executive Director and Head of Portfolio Management at Resolute Investment Management Cyprus. Hajittofis adds, “Regardless of whether it’s a hosting arrangement or a full-scope fund management arrangement, the fund manager will always take care of all the reporting necessary to all of the counterparties in place.”

Efficient and flexible asset management jurisdiction

Cyprus offers three types of AIF structures. The first is the traditional AIF, licensed by CySEC, which offers significant flexibility in terms of asset classes. The second is the Alternative Investment Fund with a Limited Number of Persons, a lightly regulated vehicle limited to 50 investors

which is often favoured in private equity transactions. Finally, the Registered Alternative Investment Fund (RAIF) is a product not directly regulated by CySEC, but rather through regulation of the fund management entity.

“Through this type of product, the regulator has eliminated a double layer of regulation,” explains Antonis Rouvas, a Board Member of KPMG Cyprus. “Once you have regulation over the fund manager, there is no need to regulate the fund itself. This essentially makes it a plug and play type of fund in that it hooks directly to an existing fund management entity who can take care of all the administration and compliance aspects, and the portfolio management as well. It is quick to launch to the market, and it provides maximum flexibility.”

The jurisdiction also offers several tax incentives for funds, as well as individuals working in the industry. Rouvas continues, “Although the headline tax rate for a corporate fund in Cyprus is 12.5%, any income from trading securities is exempt. So, in substance, the vast majority of funds pay 0% tax... A deduction for notional interest can reduce any taxable income by up to 80%, allowing funds to enjoy an effective taxation rate of 2.5% on any interest and trading income.”

In addition, Cyprus has a wide range of double tax treaties in place with other major jurisdictions, offering significant taxation benefits to fund managers. Professionals working in the industry can also expect individual taxation at a maximum rate of 17.5%, while any bonus (carried interest) is subject to a preferential rate of 8%. According to Evdokia Stavrakis-Stephanou, Director at Alter Domus, “Cyprus bears similar characteristics to the regimes of Luxembourg and Ireland. The company’s legal framework, based on common law, is the most flexible in the European Union, and maintains a high level of investor protection. In Cyprus, one can achieve the same benefits as in other jurisdictions, but at a lower cost.”

KEY TAKEAWAYS

In recent years, Cyprus has been growing rapidly as a jurisdiction for alternative investment funds, offering flexibility to fund managers in terms of both structure and taxation – as well as the credibility of an EU-regulated regime. Cyprus presents a viable alternative to other EU domiciles, at a much lower cost and successfully attracting small and medium-sized funds who want to avoid the high costs of other fund jurisdictions, both in terms of initial setup and ongoing operating expenses.

GET IN TOUCH

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