



UFG WEALTH MANAGEMENT

Amendment of Legislation on Alternative Investment Funds in Cyprus

OCTOBER 2018

On July 31, 2018 the new legislation on alternative investment funds (AIF) took effect in Cyprus.

The main change is the introduction of the long-awaited type of investment funds – registered alternative investment fund (RAIF) which is not subject to direct supervision by the Cyprus Securities and Exchange Commission (CySEC) which was previously obligatory for all alternative investment funds organised in Cyprus. The purpose of such change is introduction of an accelerated regime for creation of fund structures and facilitation of their functioning. It should be recalled that such type of funds already exists in Luxembourg and Malta, and it is very popular.

Apart from introduction of the new fund type, significant changes in the features of traditional alternative investment funds (AIF) and taxation of activities related to investment funds in Cyprus will also be introduced.

Below are the main changes which, in our opinion, are the most significant.

I. Main features of RAIF in Cyprus

1. RAIF must be managed by an external licensed managing company (AIFM) incorporated in an EU member state or any other state located outside EU but having a special passport issued as per the Alternative Investment Fund Managers Directive (AIFMD). But there is an exception saying that the external manager may be a licensed Cyprus Investment Firm (CIF) subject to all the following conditions:

- a. RAIF shall invest at least 70% of its assets in risk assets;
- b. RAIF shall be a closed-end structure.

2. Only professional and qualified investors may become members of RAIF.

3. Possibility of forming an open-end and a closed-end structure.

4. Possibility of forming an umbrella structure with more than one sub-fund.

5. Possibility of using various forms of organisation: (1) common fund, (2) investment company (either with a variable or a constant capital) or (3) limited liability partnership.

6. There must be a depositary appointed.

7. The initial capital must be 500,000 euro to be reached within 12 months since the registration date.

8. Organisation of a RAIF does not require pre-approval by CySEC, and the only thing necessary is submission of a notification on organisation of a RAIF, after which the following data on the RAIF will be entered into a special register by CySEC:

- a. information on investment strategies, sub-funds, policy of borrowed funds use, risks management policy, etc.;
- b. RAIF charter;
- c. information on appointment of a depositary;
- d. RAIF prospectus;
- e. license of the external manager.

9. RAIF may be launched by investors' subscription only after registration of RAIF with CySEC.

10. CySEC may at any time request the information/documents on the fund certifying compliance with the legislation from the external manager.

11. In the event of RAIF liquidation a respective notification must be filed to CySEC.

II. Amendment of Legislation

1. Membership of an investor in Cyprus AIF/RAIF shall not mean such investor has a permanent establishment in Cyprus, i.e. the investor's incomes from the fund shall be subject to taxation only in such investor's country of tax non-residence.

2. Management of the fund registered outside Cyprus by a Cyprus management company shall not cause a shift in the tax residency of such fund to Cyprus.

3. A special tax regime is introduced for top managers of Cyprus management companies (AIFM), and their carried interest shall be taxed at a rate of 8% with a minimum threshold value of 10,000 euro per year.