

BKMS GROUP

Alternative Investment Funds





CYPRUS LEGAL FRAMEWORK FOR AIFs

The principal laws regulating the Alternative Investment funds in Cyprus is:

- ✓ the Alternative Investment Fund Managers Law, Law 56(I) of 2013 (AIFM Law), which transposes the provisions of the EU Alternative Investment Fund Managers Directive (AIFMD).
- ✓ the Alternative Investment Funds Law, Law 131(I) of 2014 (AIF Law) which regulates AIFs.
- ✓ the Companies Law as amended (the Companies Law).

The Cyprus Securities and Exchange Commission (CySEC) is the national authority primarily responsible for regulating funds, their managers and those marketing funds.



AIFs – DEFINITION

The Alternative Investment Fund is 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 authorised as an Undertaking for Collective Investments in Transferable Securities (UCITS).



AIFs – LEGAL FORM

An AIF can take the following legal forms:

- Fixed Capital Company (FCC)
- Variable Capital Company (VCC)
- Limited Partnership (LP) , and
- Common Fund (CF)

All four forms of AIFs may be established with limited or unlimited duration.



AIFs – CHARACTERISTICS

The AIF may be:

- Self-managed: where it does not appoint an external manager.
- Externally managed: where it appoints an external portfolio manager.

An AIF is established:

- As an AIF of the open-ended type, where its unit-holders have the right to redeem or repurchase their units upon request:
 - ✓ at any time.
 - ✓ at regular intervals which do not exceed one year and are defined in the fund rules or the instruments of incorporation of the AIF.



AIFs – CHARACTERISTICS

An AIF is established:

- As an AIF of the closed-end type, where its unit-holders have the right to redeem or repurchase their units upon request:
 - ✓ at regular intervals that exceed one year, but shall not extend for more than five years and are defined in the rules or instruments of incorporation of the AIF.
 - ✓ at a specific time that is defined in the fund rules or the instruments of incorporation of the AIF.



AIFs - TYPES

Alternative Investment Fund with **Unlimited Number of Persons** which:

- ✓ may be marketed either to well-informed or retail investors.
- ✓ have investor shares which are freely transferable.
- ✓ may be listed, and in the case of AIF marketed to Retail investors, may be traded.
- ✓ are subject to minimum capital requirements equal to EUR 125.000 or EUR 300.000 in the case of self-managed fund.
- ✓ are subject to certain investment restrictions for the purpose of risk spreading and ensuring liquidity



AIFs - TYPES

Alternative Investment Fund with **Limited Number of Persons** which:

- ✓ may not exceed the total number of 75 investors.
- ✓ may be marketed only to well-informed investors
- ✓ assets under management do not exceed the AIFMD thresholds of €100 million (including leverage) or €500 million (5-year lock-up period without leverage).
- ✓ have investor shares which are freely transferable only if their transfer does not result in the AIF having more than 75 investors.



AIFs - INVESTOR CLASSIFICATION

Two classifications of investors:

1. Well-informed Investor

- A Professional Client, as such term is defined in the MiFID;
or
- One that meets the following two requirements:
 - ✓ Confirms in writing that he/she is a qualified investor and that he/she is aware of the risks involved with an investment in the relevant AIF.
 - ✓ investment made in AIF is at least EUR 125.000.
 - ✓ expertise, experience and knowledge in evaluating an investment opportunity properly, have been certified by a licensed bank/credit institution, an authorised investment firm or an authorised Management Company.

1. Retail Investor

- An investor, other than well-informed, i.e. which does not meet the requirements above.



AIFs – KEY BENEFITS

- ✓ **Flexibility:** Any asset can be included in the investment strategy of the AIF (under certain conditions).
- ✓ **Transparency:** Annual audited and half yearly reports to be sent to the CySEC and the investors (contain financial statements, information on borrowing, portfolio information, NAV).
- ✓ **Tax Incentives:** Cyprus AIF benefit from significant tax incentives/Establishment for taxation purposes can very difficulty be challenged.
- ✓ **Regulation:** EU directives/business friendly jurisdiction (no onerous reporting requirements).
- ✓ **Low set-up and operational costs:** Easy and cost efficient to set up and maintain Cyprus funds.



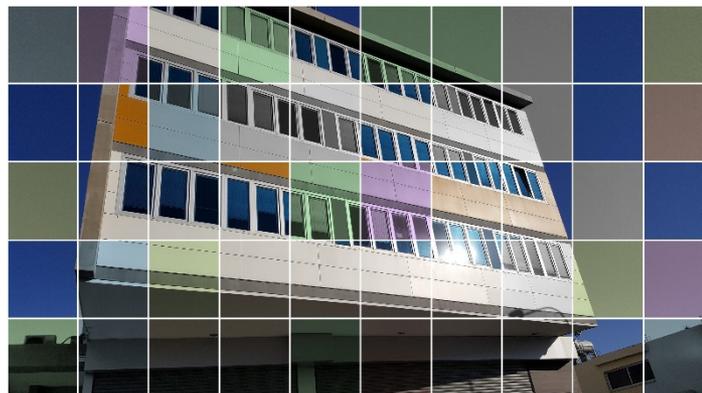
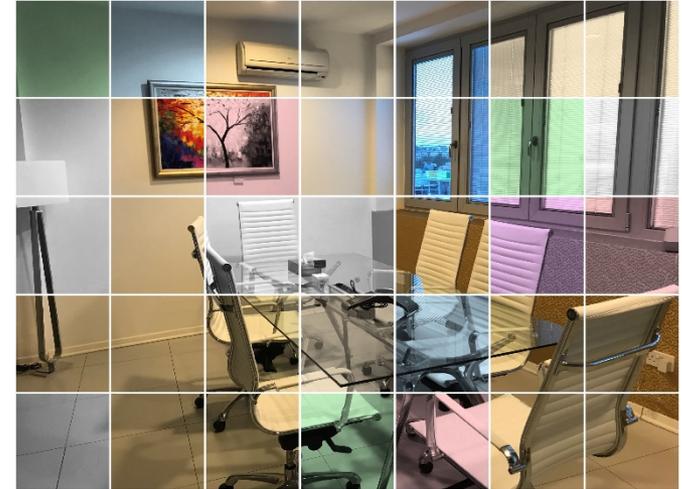
AIFs – TAX INCENTIVES

- Cyprus AIFs enjoy significant tax incentives:
 - ✓ No subscription tax on the net assets of the fund;
 - ✓ An AIF is treated identically as any other Cypriot entity, hence enjoys 12,5% corporation tax on annual net profits earned worldwide.
 - ✓ Exemption from tax on profits from sale of shares and other instruments.
 - ✓ No withholding tax on income repatriation (dividends paid to unit holders).
 - ✓ No capital gains tax on disposal of shares/units by the holders.
 - ✓ Capital gains from the sale of immovable property situated outside Cyprus is tax exempt.
 - ✓ A wide network of Double Tax Treaties in place with more



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