

# BKMS GROUP

## Alternative Investment Funds



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# 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.

### 2. 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

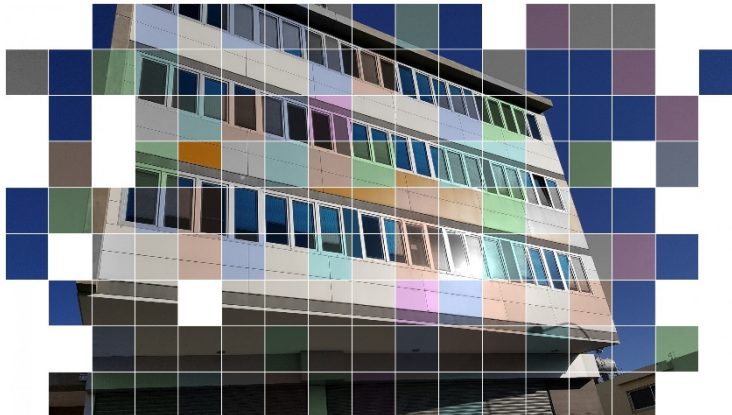
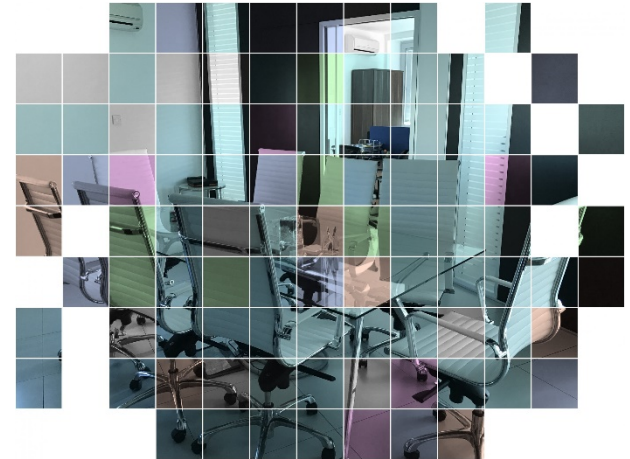
## **Cyprus AIFs enjoy significant tax incentives:**

- ✓ 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 than 50 countries worldwide.



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