



A guide to alternative investment funds in Cyprus

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Choosing Cyprus

Cyprus wishes to be at the forefront of the investment funds sector and is meeting the growing demand with its legal and regulatory framework that incorporates the enhanced regulatory measures adopted at EU level, which give emphasis on investor protection and transparency, while also offering investors and fund promoters stability along with cost and tax efficiency.

The enactment of the Alternative Investment Funds Law (AIF Law) in July 2014 provided for a significant modernisation of the related legal framework and offers a comprehensive tool box and new structuring options competitive to those of other established jurisdictions.

Cyprus keeps evolving and in July 2018 the AIF Law was further amended to reflect the latest market demands with the introduction of a new type of AIF, the “registered” but not authorised AIF, and a new structuring possibilities with the Limited Partnership with “separate” legal personality.

Cyprus AIFs have been extensively used for investment in non-traditional asset classes, such as private equity and real estate as well as family offices.

In addition to its updated and comprehensive framework, Cyprus serves as a strong link for investments in and out of Europe. It also has easy access to Europe, Asia, Russia and the CIS region, China, India and other emerging markets and as such provides distribution opportunities to a wide range of markets. Furthermore, it enjoys a number of additional comparative advantages as a regional and international business centre such as:

International expertise

Cyprus has a strong network of financial and professional service providers who have highly skilled, educated and multilingual teams specialised in servicing the fund industry and offer today a wide range of customised services in fund and asset acquisition structuring, fund administration, custody, audit and other related services.

Advanced and attractive tax environment

Cyprus has one of the lowest corporate income tax rates in the EU and the Eurozone while being compliant with the EU Directives and OECD requirements. Fund management services offered to authorised funds are in principle exempted from VAT. Generally, Cyprus is considered to be a beneficial jurisdiction offering numerous and significant options for international tax planning, both at a corporate and individual level with an extensive Double Tax Treaty network with 63 countries.

Strong cooperation between sectors

Cyprus operates in a close working relationship between the business community and the Government, while the latter has a policy of openness for the various business players.

Continuous upgrading of the infrastructure in airports, ports and telecommunications, easy access from air and sea.

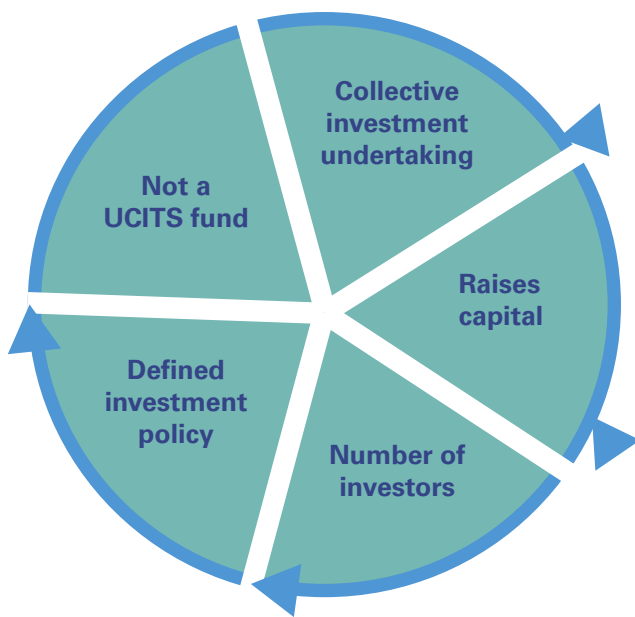
Competitive, modern and transparent legal and regulatory framework combined with the flexibility of a small jurisdiction; redomiciliation laws are in place as well as rigorous anti-money laundering laws and regulations which attribute to Cyprus the status of a fully FATF compliant jurisdiction. Cost of registration and operation extremely competitive when compared to other jurisdictions.

Legal framework

The AIF Law provides the legislative framework for the recognition, regulation and supervision of AIFs and to a certain extent the persons involved in the activities of AIFs such as directors, external managers and depositaries. It is further supplemented by directives on, among others, organisation and reporting requirements, issued from time to time by the Cyprus Securities and Exchange Authority (CySEC), which is the competent regulatory and supervisory body.

Definition of AIF

The key elements of the definition of an AIF are:



The definition provided under the AIF Law mirrors the definition provided under the AIFMD. An entity should not be considered as an AIF unless all of the above elements are present. The definition captures a broad range of vehicles (regardless of asset class) including hedge funds, private equity funds, property and commodity funds.





Regulatory and industry bodies

Regulatory authority

CySEC is the independent public supervisory authority responsible for the supervision of the investment services market and transactions in transferable securities carried out in the Republic of Cyprus. Amongst others, it is the regulatory and supervisory authority with powers to grant operation licenses to AIFs and Alternative Investment Fund Managers, UCITS and UCITS Management Companies and Cyprus Investment Firms (i.e MiFID compliant firms).

The duties of CySEC's authorisation and supervision departments include among others authorisation of the above mentioned entities and their ongoing supervision in relation to their continuing legal obligations and compliance, as well as educating such supervised entities on issues such as, the prevention of money laundering and terrorist financing, capital adequacy, compliance with their legal requirements.

CySEC operates an open door policy and one of its most appreciated advantage is its accessibility and responsiveness, as well as willingness to meet with the fund promoters and work through practical solutions.

Cyprus Investment Funds Association

The Cyprus Investment Funds Association (CIFA) was established in 2013 with the purpose and aspiration to become the collective voice and the reference point for all professionals and legal entities offering services or engaged in the investment funds industry in Cyprus. The mission of CIFA is to:

- Help its members capitalise on industry trends;
- Shape regulation;
- Enhance professionalism, integrity and quality;
- Promote the Cyprus Investments Fund Industry.

CIFA is also a formal member of the European Funds and the Asset Management Association (EFAMA) .

Categories of AIFs

The AIF Law incorporates the following categories of alternative investment funds:

- Alternative Investment Fund with unlimited number of persons;
- Alternative Investment fund with limited number of persons;
- Registered Alternative Investment Fund

	AIF with unlimited number of persons (AIFUNP)	AIF with limited number of persons (AIFLNP)	Registered AIF (RAIF)
AUTHORISATION			
Regulation	Prior authorisation and ongoing prudential supervision by CySEC	Same as AIFUNP	No prior authorisation
Number of Unitholders	No limitation	Limited to 50, provided that in case of investment compartments (Sub-Funds) such limitation applies across all such compartments cumulatively Look through provisions apply.	No limitation
Available structures	Investment Company (with fixed or variable capital) Limited Partnership (with or without legal personality) Common Fund	Investment Company (with fixed or variable capital) Limited Partnership (with or without legal personality)	same as AIFUNP
Investment Compartments (Sub-Funds)	Yes	Yes (subject to limitation of total number of Unitholders to 50 across all such compartments)	Yes
Management	Internally-managed or Externally-managed by eligible entities (please refer to the section Key Persons)	same as AIFUNP	Always externally-managed (please refer to the section Key Persons)
Depositary Requirement	Yes	Possible Exemptions	Yes

	AIF with unlimited number of persons (AIFUNP)	AIF with limited number of persons (AIFLNP)	Registered AIF (RAIF)
ELIGIBLE INVESTOR			
Categories of investors ¹	Professional, Well-informed, Retail	Professional, Well-informed	Professional, Well-informed
CAPITAL			
Minimum share capital requirement	€125.000 for internally-managed AIFs in cash or cash equivalent BUT €300,000 for an internally-managed AIF falling within the scope of application of the AIFMD No minimum requirement where externally-managed	€50.000 for internally-managed AIFs in cash or cash equivalent No minimum requirement where externally-managed	No minimum requirement
In addition to the minimum share capital requirement the subscribed capital shall reach certain limits	€500.000 within max. 24 months from authorisation (where applicable, for each Sub-Fund)	€250.000 within max. 24 months from authorisation (where applicable, for each Sub-Fund)	same as AIFUNP
Subscriptions	May consist of cash or assets relating to the investment strategy of the AIF and are free from any kind of charge. Contributions in kind are subject to a valuation report from an independent valuer. Existing investors have no pre-emptive rights of subscription, unless otherwise provided for in the incorporation documents Units must be issued at a price based on NAV (plus costs if appropriate)	same as AIFUNP	same as AIFUNP
Assets under management limitation threshold	No limitation (i) where an AIFM is appointed as External Manager or (ii) in case of an AIF which is internally-managed, and where AuM exceed Euro 100 million (with leverage) or (ii) Euro 500 million (without leverage with lock-up of 5 years), it complies with the provisions of the AIFM Law	Not to exceed the AIFMD thresholds: (i) Euro 100 million (incl. leverage) or (ii) Euro 500 million (excl. leverage with lock-up of 5 years)	No limitation
Transferability of shares	Freely transferable subject to any restrictions contained in the incorporation documents of the AIF in the cases where the target investors are WIPs	Freely transferable subject to any restrictions contained in the constitutional documents of the AIF and always provided that the number of Unitholders does not exceed 50 as a result of a transfer	same as AIFUNP

¹The Eligible investor requirement does not apply to persons that take part in the management of the AIF

	AIF with unlimited number of persons (AIFUNP)	AIF with limited number of persons (AIFLNP)	Registered AIF (RAIF)
ELIGIBLE INVESTMENTS			
Investment rules and /or restrictions	<p>Generally not applicable for AIFs addressed to WIPs, except where the AIF falls under any of the classified types of AIFs, as described under the section "Investment restrictions and types of AIFs classifications"</p> <p>For AIFs addressed to retail investors there are defined investment restrictions and portfolio diversification requirements and more specific requirements when an AIF falls under any of the classified types of AIFs, as described in section "Investment restrictions and types of AIFs classifications"</p>	No restrictions except as these may be set out in the constitutional documents of the AIF.	No restriction except for Loan Origination fund strategies. Also Money Market strategies are not allowed.
Listing	The Units may be admitted for listing and/or trading in a regulated market of tradable AIFs or on a multilateral trading facility of tradable AIFs that operates in the Republic or in another member state, or in a third country where the Securities and Exchange Commission has signed with its competent authorities a Memorandum of Understanding and Exchange of Information in accordance with the provisions of the specific market	The Units cannot be listed or traded however, may obtain an International Securities Identification Number (ISIN)	same as AIFUNP
VALUATION & REPORTING			
Valuation	Assets of the AIF shall be valued on the basis of fair value in accordance with its constitutive documents	same as AIFUNP	same as AIFUNP
Frequency of valuations	At least on the dates of the annual and half-yearly reports and each time a subscription or redemption takes place	same as AIFUNP	same as AIFUNP
Reporting Requirements	<p>Audited annual report and half-yearly unaudited report to be submitted to CySEC and made available to Unitholders</p> <p>Other statistical reporting to Central Bank of Cyprus and CySEC</p>	same as AIFUNP	same as AIFUNP
Independent Audit requirement	Yes	Yes	Yes

Legal forms

An AIF can take the form of an investment company with variable or fixed capital, a limited partnership (with or without legal personality*) or (only for AIFs with unlimited number of persons and RAIFs) a common fund.

An AIF will be open-ended in the event the investors are granted any redemption rights prior to the beginning of the liquidation period of the AIF. All other AIFs are defined as being closed-ended.

* having a legal personality separate from that of the partners but without being a body corporate

The choice of the type and form of the AIF will depend on a number of factors including type of investment, investor profile, investor familiarity, portfolio diversification, operational flexibility and taxation.

	INVESTMENT COMPANY (VCIC OR FCIC)	LIMITED PARTNERSHIP (LP)	COMMON FUND (CF)
Structure	Incorporated in accordance with the provisions of the Companies Law Cap 113 as a private or public company limited by shares	A partnership registered in accordance with the General and Limited Partnerships and Trade Names Law Cap 116 between one general partner and one or more limited partners and constituted by a partnership agreement	An unincorporated body constituted under contract between the external manager and the depositary
Open-ended or Close-ended	✓	✓	✓
Single Stand alone Fund or Umbrella Fund	✓	✓	✓
Separate legal personality**	✓	General Partner may elect for separate legal personality upon establishment of the LP	X
Management structure	Board of Directors of the investment company	Board of Directors of the General Partner	Board of Directors of the external manager
Categories of AIF	AIFUNP, AIFLNP or RAIF	AIFUNP, AIFLNP or RAIF	AIFUNP or RAIF

** Subject to pending amendment of the Partnership Law.

An AIF can be structured as a stand-alone fund or a multiple compartment fund ("Umbrella Fund") which creates separate compartments (sub-funds). The assets and liabilities of each compartment are ring-fenced. Also each compartment may be dissolved and liquidated separately without affecting the operations of the other compartments. In other words the AIF exists as a single legal entity but its several distinct compartments are, in effect, traded as individual investment funds.

These compartments function as independent entities, each with, among other, their own investment policy and restrictions and distribution market.



Key persons

External Manager

Eligibility¹

	AIFUNP	AIFLNP	RAIF
Eligible Entity			
UCITS Management Company established in Cyprus or an EU Member State and authorised to manage collective investment schemes other than UCITS	✓	✓	✓*
AIFM	✓	✗	✓
Investment Firm established in Cyprus or an EU Member State and authorised to manage collective investment schemes	✓	✓	✓*
EU Sub-AIFM ** authorised to provide portfolio management services and subject to prudential regulation regarding the provision of such services	✓	✓	✓*
Third country manager authorised to provide portfolio management services and subject to prudential regulation regarding the provision of such services	✗	✓	✗
Sole purpose manager provides portfolio management services exclusively to the specific AIF	✗	✓	✗

*provided such AIF takes the form of a closed-ended limited partnership and invests more than 70% in illiquid assets.

**whose assets under management do not exceed the thresholds of article 4(2) of the Alternative Investment Funds Manager Law or the corresponding Article 3, paragraph 2 of Directive 2011/61/EU

Duties

Managing the AIF which includes at a minimum the core activities and more specifically:

Core Activities		Additional Activities		
Portfolio Management	Risk Management	Shareholder Services	Fund Accountancy	Marketing and Distribution
		Regulatory Compliance Monitoring	Valuation	Activities related to the assets of the AIF

1. For AIFs whose assets under management exceed either (i) EUR 100,000,000 (or currency equivalent) with leverage, or EUR 500,000,000 (or currency equivalent) with no leverage and with Unitholders not having any exercisable redemption rights during a period of 5 years following the date of initial investment, the external manager must be an AIFM, or the AIF, if internally-managed, must obtain authorisation as an internally-managed AIFM under the AIFM Law.

Depository

Eligibility

Either:

- (i) a credit institution; or
- (ii) Investment Firm*, or
- (iii) another entity of a Member State which is subject to prudential regulation and ongoing supervision and falls within the categories of institution determined by such Member State to be eligible to be a depository; or
- (iv) for the safekeeping of the assets of an AIF which are not subject to custody within the meaning of section 24(3)(a) of the AIFM Law, an entity which performs depository functions within the context of its professional or business activities, for the performance of which it is subject to professional registration recognised by legal, regulatory or administrative provisions or by rules of professional conduct and can provide sufficient financial and professional guarantees that it will perform sufficiently its depository duties and meet the commitments associated with such duties.

*An investment firm may also be an undertaking authorised by a competent authority of a third country to provide custody and management services for clients, including custodianship and related services, such as cash / collateral management and is subject, for that purpose, to effective prudential regulation and supervision, including minimum capital requirements, equivalent to the corresponding European Union regulations.

The same person shall not exercise both the duties of the external manager and the depository. In the context of their respective roles, the depository and the external manager shall perform their duties independently and exclusively in the interests of the Unitholders as a whole, regardless of whether they belong to the same group.

Exemptions:

An AIF with a limited number of persons may not appoint a depository where:

- (a) Its total assets do not exceed EUR 5,000,000 (or currency equivalent) including any investment compartments thereof, or
- (b) Its instruments of incorporation limit the number of its Unitholders (including any investment compartments thereof) to five persons for the duration of the life of the AIF, or
- (c) 90% of the assets are not subject to custody and the number of Unitholders are limited to 25 and provided each Unitholder subscribes a minimum of €500.000.

Duties

AIF with unlimited number of persons and Registered AIFs

The depository is entrusted with the following duties:

Safekeeping of the AIFs assets

Cash flow monitoring

Oversight duties

- **Monitoring of the cash inflows and outflows of the AIF**, and in particular ensuring that all payments made by or on behalf of Unitholders upon subscription have been received, and all cash of the AIF have been booked in cash accounts opened in the name of or on behalf of the AIF.
- **Safe-keeping** function which applies differently depending on the type of asset owned by the AIF: (i) assets which can be registered in a financial instruments account or physically delivered to the depository; (ii) other assets for which the depository shall verify the ownership and maintain appropriate records.
- **Duty of Oversight in respect of assets and transactions of the AIF** in particular it ensures, among others, that dealings on the units of the AIF are carried out, the value of the units of the AIF is calculated and the income of the AIF is applied in accordance with national law and the constitutive documents of the AIF.

AIF with limited number of persons

The depository obligations are limited to the Safe-keeping function described above.

Location Requirement

May have its registered office in Cyprus or another Member State or a third country.

In case the depositary is located in a third country the following conditions will be applying:

- (i) the depositary is subject to effective prudential supervision in the third country, including minimum capital requirements,
- (ii) the third country is not listed by the Financial Action Task Force (FATF) as a Non-Cooperative Country and Territory (NCCT);
- (iii) the third country has signed an agreement with the Republic of Cyprus that fully complies with the standards set out in Article 26 of the OECD Model Tax and Income Tax Convention and ensures effective exchange of information on tax matters, including any multilateral tax agreements

For an **AIF with unlimited number of persons or a Registered AIF** managed by an AIFM, or an internally-managed AIFM, the depositary must be situated, or operate through a branch of an EU- authorised credit institution, in Cyprus.

Delegation

The depositary may delegate the safekeeping of the total or part of the AIF's assets to a third party, which is eligible to be a depositary in accordance with the legislation of its home state, where a relevant provision is included in the instruments of incorporation of the AIF.

The third party to whom functions have been delegated may delegate them further, in part or in total, to another party provided that the sub-delegation shall comply with the terms of the initial delegation.

Liability Regime

In general the depositary is liable, in accordance with the laws of Cyprus, to the AIF, the Unitholders or the external manager for any loss suffered by any breach of its obligations.

Such liability shall not be affected by any delegation of custody of the whole or part of the assets of the AIF to a third party, as the depositary shall be jointly liable for any loss caused by the third party to the AIF, the Unitholders or the external manager.

It is possible to contractually transfer liability to a delegate in certain circumstances.

Where the AIF is subject to the AIFM Law, the depositary is subject to strict liability for loss of financial instruments held by it in custody.

Loss of financial instruments



Liability is presumed unless the depositary can prove that the loss has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary

Other losses



Depositary is liable for its negligent or intentional failure to fulfil its obligations

Other Service Providers

Fund Administrator	<p>Its appointment is subject to CySEC's prior approval.</p> <p>May be appointed by the external manager or the AIF itself (where internally-managed), as the case may be, to perform certain of the administration tasks noted under section 6 (2) (b) of the AIF Law and as further set out under the section "Duties" of the External Manager above.</p> <p>Must be of sufficient repute and experienced enough and have the necessary human and technical infrastructure in place to properly fulfil its duties and obligations.</p>
Investment Manager	<p>Its appointment is subject to CySEC's prior approval. Must be authorised for the purpose of asset management and be subject to prudential regulatory supervision.</p> <p>The investment manager does not need to be located in Cyprus. It may be located in a third country, provided that CySEC has signed with the competent authorities of such third country a memorandum of understanding and exchange of information.</p> <p>It is noted that in case the assets of the AIF are not subject to custody, the external manager of the AIF may, if it is not an AIFM, delegate any of its core activities to any person who can exercise the delegated functions in the context of its professional activities and for which it is subject to a compulsory professional registration recognised by law or by a competent authority or by rules of professional conduct and provided that such person can provide sufficient financial and professional guarantees in order to be in a position to carry out effectively such delegated functions.</p> <p>The liability of the external manager of the AIF shall not be affected even in the case of delegation to a third party as described above.</p>
Auditor	<p>Must be located in Cyprus.</p> <p>Is responsible principally for auditing the financial statements and annual report. The auditor is also in charge of checking that the AIF's investment policy complies with the AIF Law. Any serious breach of the AIF Law or the offering documents of the AIF shall be reported to CySEC.</p>
Anti-Money Laundering Compliance Officer ("AMLCO")	<p>An AMLCO is to be appointed whose main responsibilities are as follows:</p> <ul style="list-style-type: none"> • Monitors the day to day operation of AML policies and responds to any reasonable request from competent authorities • Establishes the basis on which risk-based approach for the prevention of money laundering/terrorist financing is put into practice and reviews the approach on a regular basis • Ensures that adequate arrangements are in place for the awareness and training of employees; • Responsible for all AML reporting requirements and in particular: <ul style="list-style-type: none"> (i) an annual report, which is approved by the directors and submitted to CySEC, dealing with money laundering and terrorist financing issues pertaining to the year under review, and (ii) a monthly prevention statement, for the purpose of enabling the AIF to evaluate and subsequently reinforce its systems of control and monitor its operations, in order to identify and detect early on any transactions which may be unusual and/or carry enhanced risk of being involved in money laundering and terrorist financing operations. • Ensures proper record-keeping: <ul style="list-style-type: none"> (i) keeping records of all suspicious transactions reported by the officers and staff of the AIF; (ii) maintenance of a registry containing all reports made to and from the AMLCO and relevant statistical information, evaluation reports and all such documents which verify the accomplishment of his/her duties.
Internal Audit / Compliance Officer	<p>In the case of an internally-managed AIF and depending on the AIF category and targeted investors it shall establish and maintain the internal audit and/or regulatory compliance functions which must be independent from the other functions. Exemptions may be provided where justified by the scope, the nature, the scale and the complexity of the AIF activities.</p>

Application Procedure

Authorisation Procedure for AIFUNP and AIFLNP

Application Documents

The external manager or the AIF itself, if internally-managed, submits directly or through their promoter, an application for authorisation to CySEC.

The application includes in principle information and documentation as per below:

- Application form
- Draft instruments of incorporation / common fund rules
- Prospectus / offering memorandum
- Key Investor Information Document (if applicable)
- Declaration of the legal representative of the external manager accepting to undertake the management of the AIF (if applicable)
- Declaration of the depositary accepting to exercise such duties (if applicable)
- Information on the members of the board of directors, shareholders with qualifying holding (direct or indirect holding representing at least 10% of the capital or voting rights, or making it possible to exercise significant influence over the management), or the general partner (if a Limited Partnership), including:
 - for individuals, personal questionnaire, passport/ID copy, police clearance certificate and certificate of non-bankruptcy
 - for legal persons, personal questionnaire as well and memorandum and articles of association, certificate of shareholders, certificate of good standing
- Budgetary details for the first 12 months of operation
- Confirmations by the auditors and the legal advisors
- Confirmation by the promoter
- Confirmation by the applicant regarding the existence of sufficient initial capital (if applicable)

Additional information if internally-managed AIF

- Internal operations manual
- Organisational chart
- Description of the electronic systems as well as of the back-up systems and procedures that ensure business continuity of the applicant in case of interruption in the operation of its systems
- A description of the procedures and policies of the applicant relating to prevention of money laundering and terrorism financing
- Information on the Portfolio Manager, Risk Manager, Compliance Officer and Internal Auditor (where applicable) (including personal questionnaire, passport/ID copy, police clearance certificate and certificate of non-bankruptcy)
- The individuals appointed to the functions of Portfolio Manager, Risk Manager and Compliance officer must hold the relevant certificate of professional competence from CySEC and must be registered in the CySEC public register

Application documents may be submitted in one of the official languages of Cyprus, or in an official language and in English, or solely English.

CySEC retains the discretion to request any further or explanatory information, additional to those set out above, if deemed necessary or useful in ascertaining the granting of the authorisation.

Approval Time

The external manager of the AIF or the AIF itself (accordingly), will be notified within six months from submission of a complete application whether the licence is granted or not. If the licence is not granted, CySEC must duly justify its decision.

Registration Procedure for RAIFs

Application Documents

The external manager of the RAIF shall within one month from the date of the incorporation/ registration of the RAIF with the Registrar of Companies if the RAIF takes the form of an investment company or a Limited Partnership or if the RAIF takes the form of a common fund, within one month from the date of the its regulations, apply for the registration of the RAIF in the register of RAIFs maintained by CySEC, by submitting the following documents and/or information:

- Application Form;
- Certificate of incorporation/registration of the RAIF (as and where applicable);
- Information as to the investment strategies and the external manager's policy as regards the use of leverage, the risk profile and other characteristics of the RAIF;
- Instruments of incorporation or regulations of the RAIF (as appropriate);
- Information on the arrangements made for the appointment of a Depositary;
- The Offering Memorandum of the RAIF;
- In case the External Manager originates from a Member State other than the Republic or a third country, the relevant authorisation for the management of AIFs (not being restrictive to the management of an AIF of the Republic) and (where applicable) prior compliance with the AIFMD notification procedure;
- Confirmations by the external auditor and legal advisor of the RAIF;
- Confirmation by the promoter of the application.

Approval Time

Within one month from receipt of a complete application with the information provided above, the CySEC shall verify whether the authorisation of the external manager also covers the investment policy and strategy that the RAIF will apply and if this is the case, the CySEC shall enter the name of the RAIF in the RAIF's Registry maintained by it and inform the external manager of such registration.

Application and annual fees*

An application fee is payable on submission of the application and is not refundable. An annual supervisory fee is also due on the anniversary of the granting of the license.

The applicable fees are currently as follows:

Description		Application (€)	Annual (€)
Operation licence of an AIF with unlimited number of persons	With no investment compartments	1.800	1.800
	With several investment compartments	1.800 plus: (i) sub-funds 2-15, 400 each; (ii) sub-funds 16+, 250 each	1.800 plus: (i) sub-funds 2-15, 400 each; (ii) sub-funds 16+, 250 each
	In case of an internally-managed AIF operating as AIFM under the AIFM law with no investment compartments	2.000	2.000
	In case of internally-managed AIF operating as AIFM under the AIFM law with several investment compartments	2.000 plus: (i) sub-funds 2-15, 400 each; (ii) sub-funds 16+, 250 each	2.000 plus: (i) sub-funds 2-15, 400 each; (ii) sub-funds 16+, 250 each
	Amendment to constitutional documents or any other changes such as composition of the board of Directors, compliance officer, internal audit etc.	500 per change	N/A
	Examination of any other documents	100 per document	N/A
Operation licence of an AIF with limited number of persons	With no investment compartments	1.300	1.300
	With several investment compartments	1.300 plus: (i) sub-funds 2-15, 300 each; (ii) sub-funds 16+, 250 each	1.300 plus: (i) sub-funds 2-15, 300 each; (ii) sub-funds 16+, 250 each
Operation licence of a Registered AIF	With no investment compartments	400	
	With several investment compartments	400 plus 100 for each sub-fund	

*in accordance with CySEC Directive DI124/56-01 issued on 17.04.2019

AIFs which have not started operating within the calendar year they were granted the licence, shall pay annual fees to CySEC for the specific calendar year. In this case and in the case of a newly established AIF, the annual contributions shall be calculated in proportion, based on the date of communicating to the external manager or to the AIFs itself, as the case may be, the granting of the authorisation by CySEC.

Investment restrictions and types of AIFs classifications

Registered AIFs are not subject to any investment restrictions except for Loan Origination strategies. Also Money Market strategies are not permitted.

AIFs with limited number of persons are not subject to any investment restrictions except as these may be set out in the constitutional documents of such AIF.

Under the provisions of CySEC Directive 131-2014-03 regarding the classification of AIFs and other related issues, AIFs with unlimited number of persons may be subject to investment restrictions by reference to the category of investors to whom the AIF is marketed (i.e retail or WIPIs) and, where applicable, may fall within a classified type of AIF as per the below table:

Type of investor	Investment restrictions	Classified type of AIFs*
WIPIs <small>(Well Informed Professional Investors)</small>	<ul style="list-style-type: none"> Not subject to investment restrictions and diversification requirements except as these may be set out in the constitutional documents of the AIF or where the AIF falls under any one of the Classified type of AIFs. 	<ul style="list-style-type: none"> Master – Feeder Money Market Fund of funds Venture capital Loan Origination
Retail	<ul style="list-style-type: none"> Subject to general requirements to observe the principle of risk spreading and to more specific restrictions where they may fall under one of the Classified types of AIFs Only allowed to invest in one or more of the following assets: <ol style="list-style-type: none"> Transferable securities Money market instruments Units in collective investment undertakings Derivative instruments [under certain conditions] Cash deposits with credit institutions Real estate and real estate assets Mortgage related securities Collateralised debt obligation securities, up to 30% Commodities, up to 20% Foreign exchange, up to 20% May hold ancillary liquid assets Borrowings at any time shall not exceed 25% of the AIFs' net assets. 	<ul style="list-style-type: none"> Master – Feeder Money Market Capital/ Performance guarantee Capital protection Fund of funds Real estate Venture capital

*where the AIF invests at least 60% of its assets in a relevant category of assets it shall be classified in one of the listed categories of AIFs according to the category of investors marketed to and as such will need to comply with specific requirements.



Reporting, transparency rules and disclosures to investors

On-going supervision

AIFs are subject to continuous supervision by CySEC. In addition to regular reporting which needs to be made to CySEC, any material changes to the AIF (investment policy, directors, key service providers) are subject to the approval of CySEC. Less important changes are simply notified to CySEC.

Reporting and investor disclosures

The Fund shall prepare in accordance with the provisions of the AIF Law the following reports

Annual report

Must prepare an audited annual report in accordance with IFRS which must be submitted to CySEC and made available to the unitholders no later than six months following the financial year end. Annual reports are prepared, audited, submitted and published in accordance with section 29 of the AIFM Law, which is applicable directly to AIFs which are externally-managed by an AIFM and internally-managed AIFMs, and mutatis mutandis to all other forms of AIFs.

Minimum content of annual report

- a balance sheet or a statement of assets and liabilities of the AIF
- income and expenditure account of the AIF for the financial year
- a report on the activities of the AIF of the financial year
- any material changes in the information disclosed to the unitholders during the financial year
- the total amount of remuneration for the financial year and (where relevant) carried interest paid by the AIF, and the aggregate amount of remuneration
- (where applicable) the aggregate amount of remuneration broken down by senior management and members of staff of the AIFM, whose actions have a material impact on the risk profile of the AIF

Half yearly report

Half-yearly reports must be prepared in accordance with IFRS at the end of the first semester of each calendar year and submitted to CySEC, as well as made available to investors within two months of the end of the semester. CySEC has the discretion to issue a directive regarding the minimum content of the semi-annual report.

Additional reporting requirements apply for AIFUNPs and RAIFs which are subject to the AIFM Law, the scope and frequency of which depend among others, on the type of AIF managed by the AIFM and the level of AuM.

In particular, the following information will be made available to Unitholders (and regularly reported to CySEC) as part of each AIFs (including any investment compartment thereof) periodic reporting process:

- (i) the percentage of each AIFs assets which are subject to special arrangements arising from their illiquid nature;
- (ii) the current risk profile of each AIF and the risk management systems employed by the external manager or internally-managed AIF to manage those risks; and
- (iii) the total amount of leverage employed by each AIF.

The above information will be provided in the annual report. Unitholders and CySEC will also be provided with information regarding changes to (i) the maximum level of leverage which an AIF, or the external manager on that AIF's behalf, may employ; or (ii) the rights for reuse of collateral under an AIF leveraging arrangements; or (iii) any guarantee granted under an AIF's leveraging arrangements.

Statistical and other reporting requirements

Item	Frequency	Reference Period	Submission Deadline
MLCO Monthly Prevention Statement	Monthly	Previous month	15th day of each month
Statistical reporting to Central Bank of Cyprus	Quarterly/Monthly (frequency of reporting decided by the CBC)	Previous quarter/month	Within 15 working days from the end of each quarter/month
Statistical reporting to CySEC (Form QST-MC)	Quarterly	Previous quarter/month	Within 30 working days from the end of each quarter/month



General Tax considerations

Taxation of AIFs

VCICs and FCICs:

The taxation of AIFs established in the form of a company, follows proportionately the taxation of limited liability companies.

No subscription tax on the net assets of the AIF is imposed under the Cyprus tax legislation; rather. Corporate income tax at the rate of 12,5% is imposed on taxable profits. Dividends, gains from the sale of securities, capital gains from the sale of property abroad and gains from the sale of shares of foreign property companies are exempted from taxation effectively limiting taxation to interest income.

Common Funds and Partnerships:

Following recent amendments, no permanent establishment is formed by investors for their investments in common funds and partnerships established as an AIF. As a result, common Funds and Partnerships are not treated as companies under the provisions of the Cyprus tax legislation; as such, they are treated as transparent vehicles the profits of which are allocated to the unitholder in proportion with their investment.

Taxation of the Investors in AIFs

VCICs and FCICs:

The taxation of investors in AIFs established in the form of a company, follows proportionately the taxation of shareholders in limited liability companies.

For investors that are not Cyprus tax residents, no withholding tax will be imposed upon dividend distributions from the AIF; the redemption of the unit will be deemed as a gain from the disposal of a qualified security and as such exempt from tax on the assumption that the AIF does not engage directly or indirectly in Cyprus situated immovable property.

For investors that are Cyprus tax residents, deemed dividend distribution provisions shall apply under which, the AIF will be deemed as having distributed 70% of

its accounting profits for a tax year, within a two year period, and 17% taxation under special contribution for the defence shall apply. Actual distribution of dividends shall be taxable at 17% only in respect of investors that are Cyprus tax resident and Cyprus domiciled individuals. The redemption of the unit will be deemed as a gain from the disposal of a qualified security and as such exempt from tax on the assumption that the AIF does not engage directly or indirectly in Cyprus situated immovable property.

Common Funds and Partnerships:

Investors on Common Funds and Partnerships are being treated as holding underlying assets directly on the basis that neither common funds nor partnerships are treated as companies under the provisions of the Cyprus tax legislation and as such are taxed on each item of income separately depending on its nature. In this respect, all the general exemptions of the Cyprus tax legislation shall be applicable proportionately.

No deemed dividend distribution provisions are triggered in common funds and partnerships as such are not companies and do not issue shares.

Other Tax considerations

Additional tax incentives are provided for Fund Managers relocating to Cyprus both in respect of their remuneration and with respect to their performance bonus (carried interest) won by virtue of providing fund management services as specifically targeted exemptions and deductions are in place.

Glossary

AIF	Alternative Investment Fund
AIF Law	Cyprus Alternative Investment Fund Law 124(I) of 2018
AIFM	Alternative Investment Fund Manager established in Cyprus or any other EU Member State
AIFMD	The directive 2011/61/EU of 8 June 2011 on Alternative Investment Fund Managers
AIFM Law	Cyprus Alternative Investment Fund Managers Law of 2013
AIFLNP	Alternative Investment Fund with limited number of persons
AIFUNP	Alternative Investment Fund with unlimited number of persons
CIFA	Cyprus Investment Fund Association
Cyprus Mini Manager	Cyprus incorporated entity not exceeding the AuM thresholds under section 3(2) of the AIFMD and authorised to provide portfolio management under applicable law
CF	Common Fund
CySEC	Cyprus Securities and Exchange Commission
EFAMA	European Funds and Asset Management Association
FCIC	Fixed Capital Investment Company
IFRS	International Financial Reporting Standards
Investment Firm	A Cyprus or EU incorporated entity operating under relevant authorisation granted by CySEC or the competent authority in the jurisdiction of the firm in accordance with the Activities and Regulated Markets Law of 2017 or applicable national law transposing MiFID respectively and whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis
LP	Limited Partnership
MiFID	Markets in Financial Instruments Directive 2014/65/EM
NAV	Net Asset Value
Professional Investor	As defined in Annex II of the MiFID, which includes: <ul style="list-style-type: none"> • Authorised entities (i.e. credit institutions, investment firms, insurance companies, funds, etc.); or • Large undertakings being companies meeting two of the following: balance sheet total of EUR 20 mm, net turnover of EUR 40 mm, or own funds of EUR 2 mm; or • National and regional governments, public bodies, central banks, international and supranational organisations, etc.; or • Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitisation of assets or other financing transactions. • Clients other than the aforementioned, who may be treated as professional or request, including public sector bodies and private individual investors who may be allowed to waive some of the protections afforded by the conduct of business rules

RAIF	Registered Alternative Investment Fund
Retail Investor	Is defined as a person who does not fulfill the requirements of either a “Professional” or a “Well-Informed” investor
EU Sub-AIFM	EU incorporated entity not exceeding the AuM thresholds under section 3(2) of the AIFMD and authorised to provide portfolio management and subject to prudential regulation under the applicable legislation of the relevant Member State
UCITS	Undertakings for Collective Investment in Transferable Securities which falls within the scope of application and the provisions of the Cyprus Open-Ended Undertakings for Collective investments Law of 2012 (as amended) or UCITS Directive 2009/65/EU as transposed by any member state
UCITS Management Company	a company which has been registered and falls within the scope of application and the provisions of the Cyprus Open ended undertakings for Collective Investments Law of 2012 (as amended) or UCITS Directive 2009/65/EU as transposed by any member state
Unitholder	a shareholder or limited partner or unitholder in an investment company or limited partnership or common fund respectively
VCIC	Variable Capital Investment Company
Well Informed Investor	<p>any investor who is not a professional investor but fulfills the following conditions:</p> <p>(a) the investor states in writing that:</p> <ul style="list-style-type: none"> (i) he either has sufficient knowledge and experience in financial and business matters to be able to assess the benefits and risks associated with the proposed investment, and is aware of the risks associated with the proposed investment; or (ii) his business is related to the management, acquisition or sale of assets, either on its own account or on behalf of third parties, of the same type as the investments of the AIF; and <p>(b) (i) either his investment in AIF amounts to at least one hundred and twenty five thousand euros; or</p> <ul style="list-style-type: none"> (ii) he has been assessed as a sufficiently well-informed investor by a credit institution, an AIFM, a UCITS Management Company, an Investment Firm or an AIFM authorised by the Republic or another Member State to manage AIF whose assets do not exceed the Article 4 (2) of the AIFM Law or the corresponding Article 3 (2) of Directive 2011/61 / EU, and from the above assessment it appears that it has sufficient knowledge and experience in financial and business issues to assess the benefits and risks associated with the investment plan of the AIF based on its investment policy; or (iii) he is employed by any of the persons referred to in point (b) (ii) as an employee who receives a total remuneration within the same salary scale as the natural persons who effectively carry on one of the business activities of the person referred to in (ii) of paragraph (b), or the executive members of the Board of Directors who effectively carry out one of the business activities; or <p>(c) irrespective of paragraphs (a) and (b), the investor is a person who effectively directs the activities of the AIF or its external manager, or is a person who manages the investment of that AIF.</p>
WIPIs	Well-informed and Professional Investors

Why KPMG Cyprus

KPMG's Integrated Solution

We offer a wide range of services with the aim to facilitate and simplify the process of setting up and managing fund vehicles.

- Assistance in set-up and structuring;
- Acting as promoter of the client's entire application and liaising with the regulatory authorities, as necessary;
- Assistance with drafting of constitutional documents and private offering memorandum/prospectus;
- Design of corporate governance framework and preparation of internal operations manual;
- Advising for PRIIPs regulation and assisting on KID preparation
- Assistance with re-domiciliation of funds.

- Bespoke services:
- Internal audit, risk and compliance services;
- Financial risk management;
- Transactions and restructuring;
- IT Advisory;
- Business performance services.
- Technology powered services:
- AIFMD Reporting;
- Risk management and reporting;
- Automation of procedures.

Regulatory
Services

Advisory
Services

Asset
Management
Services

Audit
Services

Tax
Services

- Audit of the statutory annual financial statements based on IFRS;
- Compliance and regulatory reporting for clients;
- Consultation on audit and accounting matters.

- Fund structuring and transaction analysis;
- International tax planning and implementation of cross-border investments and transactions;
- Preparation and submission of corporate tax returns;
- VAT services in relation to fund providers and VAT compliance.



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