A Message from the Chairman

By Mr. Angelos M. Gregoriades, BSc, FCA
Chairman of CIFA

The Cyprus Investment Funds Association (CIFA) has been established at the initiative of the Cyprus Investment Promotion Agency (CIPA) as a natural development of the progress made thus far in promoting Cyprus as a competitive investment funds jurisdiction. The Board of CIFA is comprised of highly reputable and experienced industry professionals spanning all aspects of the industry, including fund management, investment advisory, banking, audit and legal.

The mission of CIFA is to:
- Help its members capitalise on industry trends;
- Shape regulation;
- Encourage professionalism, integrity and quality;
- Promote the Cyprus investment funds industry.

As part of achieving its mission, CIFA has established nine Technical Committees and Working Groups comprising of experienced industry professionals which will analyse global industry developments as well as legal and regulatory changes in Cyprus, the EU and beyond. These Technical Committees will focus, among others, on related regulatory and technical subjects – such as UCITS and Alternative Investment Funds – as well as market and operational matters – such as promotion and distribution, risk management, research and statistics, etc. The hard work of the members of these Technical Committees will assist CIFA in ensuring that Cyprus remains at the forefront of related issues internationally while continuously expanding and updating its products to meet the market needs.

Other than being the voice of the industry at a local level, CIFA will also represent the Cyprus investment funds sector in economic missions organised by the Cyprus government around the world, and take active part in principal meetings of the global industry. One important and immediate related action is CIFA impending application in the coming weeks to become a national member of the European Fund and Asset Management Association (EFAMA).

We have the opportunity to position Cyprus at the centre of the global investment funds industry where, if we take as examples Luxembourg or Malta, it could well become one of the pillars of our financial industry in the coming years. Our legal framework reflects a harmonization with relevant EU Directives covering UCITS funds, UCITS Management Companies and Alternative Investment Fund Managers. With the recent adoption of the AIFMD, we can offer unequalled solutions to alternative fund managers that would choose to operate from Cyprus regardless of the domicile of the funds they manage.

Furthermore, we are working diligently at all levels for the imminent enactment of a new legislation governing Alternative Investment Funds, to replace the existing ICIS regime, which will provide for a modernization of our legal framework regarding the establishment of such funds and introduce more flexible and favourable fund structures meeting the needs of their promoters.

The activities of CIFA are further supported by the Ministry of Finance and the Cyprus Securities and Exchange Commission (CySEC), the latter being the regulatory authority responsible for the authorization and supervision of UCITS funds and
Management Companies, Alternative Investment Fund Managers (AIFM), and further Alternative Investment Funds (AIFs), following the upcoming enactment of the relevant law. This support at all government and regulatory levels is a crucial and necessary development in Cyprus’ efforts to become a renowned centre for all asset classes of funds and fund managers.

I would like personally, as well as on behalf of the Board, to express our appreciation to all parties involved, especially the members of the Ministry of Finance, CySEC and CIPA for the continued commitment and professionalism in the efforts in promoting the establishment of the Funds Industry in Cyprus, and further taking the relevant initiatives to bring Cyprus on equal footing with its competition. I look forward to working closely with my fellow CIFA Board Members in achieving our mission and further promoting Cyprus internationally as a competitive jurisdiction servicing both investment funds and fund managers.

Mr. Angelos Gregoriades, BSc, FCA, is the Chairman and Head of Tax and Corporate Services of KPMG in Cyprus. He is also Chairman of the Board of CIFA, and a Member of the Board of the Cyprus Investment Promotion Agency (CIPA).

The Cyprus Fund Industry, a lifeline for our financial centre

By Mr. Ioannis Gaiganis, Vice-Chairman of CIFA

It is undeniable that the Cyprus financial industry is going through turbulent times. Assuming that the worst is now behind us, this experience could give way to a financial environment that is stronger and more resistant to the destabilization factors that caused the troubles in the first place.

While everyone’s attention is narrowly focused on the banking sector, the investment funds industry is paradoxically evolving at a pace that gradually puts Cyprus on the list of EU countries that may be considered for optimal fund related solutions, namely Luxembourg, Ireland or Malta. By digging a little deeper in the subject though, we see that this is not a paradox but possibly the natural evolution of many years of slow progress in the sector.

The Cyprus’ fund industry first became reality in 1999 with the introduction of the ICIS Law, at a time when other countries that are today mature fund jurisdictions, did not offer the flexible fund environment offered by Cyprus. While the first decade since the ICIS Law introduction saw the creation of approximately 50 schemes with many of them being dormant, since 2009 their number has more than doubled with funds that are not only actively managed but much more diversified in terms of asset classes. This remarkable growth is to be attributed to the country’s attractive regulatory and fiscal framework combined with quality, cost efficient services. Despite recent events, investor protection is an embedded feature of the Cyprus fund industry as like in most mature fund jurisdictions, invested fund assets are segregated from the custodian bank’s other assets.

Developments in the Cyprus fund industry have been continuous for many years now and the exceptional work done by the current members of the Cyprus Securities and Exchange Commission resulted in Cyprus being at the forefront of countries that fully integrated in law and practice all relevant EU directives relative to investment funds and their managers either in the context of UCITS IV or the Alternative Investment Fund Managers Directive (AIFMD).

The most recent development relates to the transposition of the AIFMD, with the relevant law having been enacted on July 5th 2013. It marks a new beginning in the alternative fund space not only domestically but in the wider region where Cyprus may rightfully be considered a serious candidate to offer access to EU regulated solutions for funds and their managers. Alternative funds under the new regime may also be immune to local banking risk as they may be established in Cyprus and appoint a reputable custodian in any EU country at least until 2017. This exception to the rule of local custodian bank, which still applies to UCITS funds, should by no means bring us long term comfort. It must remain an absolute priority for our banking sector, to implement best practice securities services if we are to emulate the success of other EU fund management jurisdictions. It
should also remain a priority for the financial industry to attract new reputable custodian banks and fund administrators, or trigger the growth of existing players in the market with incentives and guidance.

In times when the financial industry is seeking new horizons that would not be associated with the challenged banking sector, the investment fund industry offers a unique chance of growth for Cyprus. Take as an example a country like Luxembourg where while the size of its banking industry is astronomically higher than the much criticised Cypriot bank sector size, it is so in custody of structured and protected assets in the form of funds or similar investment schemes, not deposits. Furthermore, the foreseeable income for our economy from this industry is considerable especially if one sees the opportunity of redirection it offers to our financial model that thrived for decades but is now in need of new growth areas.

The Pan-European developments affecting the future of investment funds and their managers are shaping a new fund management landscape where every EU country has the right and an open invitation to project its advantages. Perennially in Cyprus and even during tumultuous times, we have successfully created growth by showcasing the multiple benefits offered by our country; this includes its uniquely attractive total package in terms of regulatory support, services, cost and growth potential. We have translated these benefits into action and best practices, reaping the rewards of intelligence, flexibility and ability to adapt.

The renewed investment fund industry enables us to isolate growth from the rebuilding process of our banking sector and invites us once more to seize the opportunity to showcase our advantages. Let’s seize it and with it, the prospects of a thriving financial industry that can effectively renew itself.

Mr. Ioannis Gaiganis, Vice-Chairman of CIFA, is an expert professional in fund management and securities services. Mr. Gaiganis has extensive experience in the sector, having previously held the position of Director for Beneficentia Ltd, a Cyprus UCITS Management Company, as well as senior positions with Deloitte, KPMG, JP Morgan Fleming Asset Management, Fidelity Investments and Societe Generale Bank & Trust.

Despite Recent Events, Cyprus remains an attractive funds jurisdiction

By Mr. Christos Vasiliou, Board Member KPMG

Cyprus is firmly established as a key gateway for EU inbound and outbound investments, providing an ideal place to raise funds while maximizing returns for investors at low cost and enhanced tax efficiency. Although the local funds industry has not been unaffected by recent events, Cyprus still remains an attractive jurisdiction servicing both investment funds and investment fund managers, providing a modern, flexible and advanced related legal framework, as well as experienced service providers and numerous tax benefits.

Legal Framework

Collective investment schemes under the current legal framework may be set up, depending on their investment objectives, either as (i) Undertakings for Collective Investment in Transferable Securities (UCITS) authorised under the Undertakings for Collective Investment Law of 2012 (Law 78(I)/2012; UCI Law) or (ii) private International Collective Investment Schemes (ICIS) recognised under the ICIS Law of 1999 (Law 47(I)/1999). The latter are soon to be replaced by the proposed Alternative Investment Funds (AIFs) framework, which will introduce both private and public funds, funds marketed to professional / well-informed and / or retail investors, as well as funds with segregated investment compartments (i.e. umbrella funds). This development affords Cyprus with an alternative investment funds framework which is competitive to other reputable jurisdictions including Luxembourg, Ireland and Malta.

The fund management industry in Cyprus is represented by UCITS Management Companies authorised under the UCI Law of 2012 and Alternative Investment Fund Managers (AIFMs) authorised under the AIFM Law of 2013 (Law 56(I)/2013). Both these laws represent the
transposition of related EU Directives, ensuring a harmonization in Cyprus with the regulatory framework in other EU jurisdictions. Further, fund managers authorised under either one of these two regulatory frameworks will gain access to the EU passport allowing them to both offer their services cross border as well as market their funds to the wider EU investor base.

**Professional and Experienced Service Providers**

Experienced and recognised fund service providers are established in Cyprus including local and foreign custodian banks and central administrators ranging from global names to local independent boutique operators servicing all types of funds and providing support for all EU and non-EU distribution countries at rates defying most competition. Recent years have seen numerous international players setting up local branches in Cyprus, indicating the trust they are also placing on Cyprus’s development as a credible investment fund jurisdiction. In addition, all of the big four accounting firms are present in Cyprus, together with numerous smaller international brand names and many local boutique service providers. Finally, local legal professionals – who on a frequent basis cooperate with major international law firms – are highly qualified and can offer expert advice on all aspects of business and commercial law, both local and international.

**The Banking Sector and Related Custody Services**

There are a number of service providers in Cyprus, both local and foreign, offering advanced custody and / or banking services. However, it would be wrong to assume that the sector has remained unaffected by recent events, especially following the restructuring of the Cyprus banking sector including Laiki Bank and the Bank of Cyprus.

Funds regulation in Cyprus has provided for the flexibility of appointing a non-Cypriot depositary or custodian. More specifically, the AIFM Law allows Cypriot AIFs managed by Cypriot AIFMs to appoint a bank established in any EU Member State as the AIF’s depositary through July 2017, while the proposed AIF Law allows for the appointment of a custodian located either in any EU Member State or in any third country with which Cyprus has signed a cooperation agreement. These flexibilities serve to alleviate any concerns of fund promoters in establishing their funds in Cyprus, while concurrently allowing the local banking industry time to recover and regain its foothold as a prime financial centre.

**Tax Efficiency**

Cyprus offers a number of taxation benefits, including one of the lowest corporation tax rates in the EU at 12.5%, while fully complying with EU Directives and OECD requirements. A majority of investment fund revenue sources are tax exempt in Cyprus including gains from the redemption of units and any gains arising from trading in securities. The absence of any withholding tax on outbound dividends offers tax efficient repatriation strategies for investors. Further, there is no minimum participation or holding period requirements on inbound dividends to qualify for tax exemption. Fund management services offered to authorised investment funds in Cyprus are not subject to VAT. Further, Cyprus has rigorous anti-money laundering laws and regulations, attributing to its status as a fully FATF compliant jurisdiction, and boasts an extensive Double Tax Treaty network with 46 countries.

*Mr. Christos Vasilis is a partner and the Service Line Leader of the Fund Services Practice of KPMG Cyprus. He is a Fellow member of the Institute of Chartered Accountants in England and Wales and of the Institute of Certified Public Accountants of Cyprus.*

**Thoughts on the AIFM Directive**

*By Mr. Giorgos Rologis,*

*Board Member of CIFA, CEO Alter Domus (Cyprus) Ltd and Mr. George Karatzias, Manager Alter Domus (Cyprus) Ltd.*

Following a long period of workings, controversy and uncertainty since the initial draft, the Alternative Investment Fund Managers Directive (“AIFMD”) has now been transposed in around thirteen European countries following the July 2013 deadline, with
Cyprus being the 3rd country in Europe to be harmonized. Following the transposition, affected fund managers will have a testing twelve month period to be in compliance with the directive while they watch how the market and the competition also reacts to the new environment.

Rationale behind the Directive

The AIFM Directive, by many considered a child of the financial crisis, was introduced with the aim of regulating non-UCITS fund managers for the first time. Under the new regulations affected EU and non EU managers will be required to comply and be authorised under a comprehensive EU legal framework. Amongst other requirements, the new Directive requires Alternative Investment Funds (AIFs) falling within the scope to appoint a single depositary that will be liable towards the AIF and its investors. This provision of the Directive (Article 21 paragraph 3) introducing a new breed of depositary has been treated with some caution and will certainly have consequences for the Real Estate and Private Equity industry.

Industry reaction to the Directive

The reaction among industry participants has been mixed. Opposition mainly derives from smaller and/or non EU managers, with private equity and real estate portfolios. The limited resources they have at their disposal and the low margins they enjoy are expected to take a further significant hit for smaller fund managers, while the increased costs may push non-EU managers to seek investment opportunities elsewhere rather than complying and be authorised by a European-wide legislation. Possible outcomes can also be dual fund structures to cover EU and non EU investors.

On the other hand, with the above categories of managers expected to be pushed out of the market, opportunities are expected to be created for larger fund managers who will see their funds gain the badge of “EU compliant” manager. The reduced competition in the zone will also bring consolidation to the industry.

Opportunities and threats

The implementation of the Directive is expected to raise investor’s confidence in previously unregulated or unknown managers, funds and jurisdictions like Cyprus by creating a European passport of quality and compliance. The reduced manager competition is expected to boost the expansion of larger and EU local managers which in turn will bring recognisability and branding of operations.

On the other side of the coin, the new requirements are expected to raise costs which may prove unbearable or inefficient by certain categories of managers and may force non-EU managers out of the region. Changes are being imposed on remuneration of “identified staff” which will cause restructuring and probably disruption to existing structures and functions. Also, the private placement entry is facing abolition subject to each member state’s discretion, which will lead managers to redesign their marketing and investor attraction techniques.

The Depository function for AIF

The Directive harmonises the function of the depositary throughout Europe, sets out its responsibilities and also determines who will be allowed to perform this role. Whereas in the past the execution of the depositary function required a bank license, funds having an initial lock-up of five years and investing mainly in non financial assets, will have the opportunity to appoint a non bank entity as a Depositary.

Under the AIFM Directive the depositary will have three main responsibilities; the safekeeping of assets, monitoring significant cash flows through the structure and overseeing the main processes.

These new functions force the depositary to become a central hub of communication throughout the fund structure, this new role requires depositaries to develop a comprehensive understanding of the industry as well as a deep knowledge of their clients’ business model. Also, the main challenge for the depositary is to become a hub through which the communication flows without slowing down the process. Having a centralised documentation management tool will be essential to facilitate the streamlined flow of communication.

A close cooperation between the client and the fund administrator will be a key success factor as fund administrators for both Private Equity and Real Estate funds act as the main coordination hub for all relevant aspects, including accounting, legal
documentation, payment processing and investor servicing. It follows then that service providers like Alter Domus that are able to provide both fund administration and depositary services are best placed to deliver added value to the Fund Managers.

Subject to regulatory approval, Alter Domus is launching new Depositary Services in Luxembourg and in the United Kingdom and soon will be applying for a approval in Cyprus. Alter Domus will continue to monitor the evolution of the AIFMD regulation and, as needs and opportunities arise, will leverage its experience to provide such services in other relevant jurisdictions.

Mr. George Rologis a Board Member of CIFA, is Head of Products and a member of the Executive Committee of Alter Domus Group and CEO of the firm’s Cyprus office. Mr. Rologis, has extensive experience in the Private Equity sector, having previously held positions with Credit Suisse First Boston, JP Morgan, Compass Partners International LLP and Dubai International Capital.

Mr George Karatzias, manager at Alter Domus in the firm’s Cyprus Office, specializing in the provision of administration services to the alternative investment fund sector. He is a member of the Association of Chartered Certified Accountants and of the Institute of Certified Public Accountants of Cyprus.