



Michalis Avraam
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AUDITORS AND BUSINESS ADVISORS

Investment Funds



Investment Funds

The accession of Cyprus to the EU and euro zone has enhanced the reputation of Cyprus as a reputable business centre and Investment Funds jurisdiction. Cyprus also has a number of competitive advantages as a regional and international business centre such as transparent legal and financial regulated framework, attractive tax environment, stable policy and strategic geographical location.

There are two distinct regimes for investment funds:

- **Undertakings for collective investment in transferable securities “UCITS”**
(EU law product)
- **International collective investment schemes “ICISs”** (purely national products)

Undertakings for Collective Investment in Transferable Securities “UCITS”

The current legislation in Cyprus is in compliance with EU directive 2001/107/EC and 2001/108/EC.

There are two main forms of UCITS:

A. Common Fund Company/Mutual fund

A mutual fund is a pool of assets such as transferable securities, money market instruments and deposits belonging to the fund’s unit holders. Mutual funds generally refer to their participants’ interests as units. A mutual fund is managed by a management company and kept by a depositary on behalf of the investors, its owners. The mutual fund has no legal personality and is represented by the management company in case of legal disputes.

B. Variable capital investment company

A variable capital investment company is a limited liability company with shares, incorporated under the Companies Law and registered under UCITS Law.

UCITS are regulated by the Cyprus Securities and Exchange Commission (CySEC).

The procedure for setting up and operating UCITS is as follows:

- Licence application is made by Fund Management Company to CySEC

- Both Custodian and Fund Manager must meet CySEC criteria
- Fund manager must be licensed by CySEC
- Custodian must be a bank or Company based in Cyprus and approved by CySEC
- Name of the Fund and the prospectus must be approved by CySEC
- Minimum capital of €1.708.600 must be deposited within 3 months from the date of obtaining the licence.

The reporting and disclosure obligations of UCITS are:

- Annual financial statements
- Semi-annual financial statements
- Quarterly summarising statement
- NAV calculation
- Subscription/redemption price and suspension of redemption
- Reporting and disclosure documents to be submitted in the same language as the constitutional document
- Event-driven publications

CySEC must determine the application within six months of submission of a complete application package (UCITS Law).

International collective investment schemes “ICISs”

The international collective investment schemes (ICIS) is the most appropriate structure for hedge funds. In May 1999, Cyprus introduced legislation enabling the establishment and regulation of ICISs.



The Central Bank of Cyprus (CBC) is currently responsible for regulating ICISs, but legislation is being prepared to transfer this responsibility to CySEC.

The current legislation is 47(I) 1999 and as amended by law 63(I) 2000 and the international Trust law is applicable to ICISs in its totality.

An ICIS can take the following legal forms:

- International Fixed Capital Company (IFCC)
- International Investment Limited Partnership (IILP)
- International Unit Trust Scheme (IUTS)
- International Variable Capital Company (IVCC)

Major ICISs characteristics include:

- Limitation on the number of investors to a hundred
- No public offer and trading allowed (only quoting possible)
- May take the form of both statutory and contractual type
- May be open-end or closed-end
- No statutory/regulatory restrictions on investment policies and or investor eligibility
- No statutory/regulatory minimum subscription or minimum capital requirements
- Contributions-in-kind of assets exceeding 10% of NAV have to be audited

The procedure for setting up and operating an ICIS is as follows:

- A standard application must be submitted to the Central Bank of Cyprus
- The application must be submitted in case of IFCC/IVCC, IUTS and IILP by the Company, the Trustee and the Partnership respectively
- Personal questionnaire (PQ) to be completed and signed by directors or significant shareholders or its manager

accompanied by CV, police clearance certificate, passport copy and references from previous employers. The questionnaire for IILP to be completed by the General Partner and in case of IUTS to be completed by the manager

- Memorandum and Articles of Association/ Partnership agreement or Trust Deed and all material agreements
- Private Offering Memorandum or alternatively a summary of the investment objectives
- Application fee USD500 and annual inspection fee USD500

Recognition can take from 3 to 7 months following the submission of the complete application.

The reporting and disclosure obligations of ICIS are:

- Subject to ongoing supervision by the Central Bank
- Monthly statistics reports
- Quarterly NAV reports
- Half-year financial statements must be sent to the Central bank and unit holders within two months of the end of the half-year
- Annual financial statements must be sent to Central Bank and unit holders within three months of the end of financial year

Tax benefits of UCITS and ICISs

- No subscription tax on the net assets of the fund
- No corporate income tax on revenue and capital gains tax from trading in securities
- Exemption from tax on foreign dividends
- No withholding tax on income repatriation
- The liquidation of open and closed-end collective schemes is not taxable if the unit holders are not tax residence in Cyprus
- Funds are not subject to VAT



Michalis Avraam & Partners Limited has taken all reasonable care to ensure that this leaflet is accurate. The information contained is designed as a general guide and readers are advised to verify this information to ensure that it applies in their particular circumstances.

Our professional staff can assist your company to fulfil all necessary obligations towards the achievement of a successful fund registration.

We offer the following fund registration services:

- Advice on the set-up of the Company, building the scheme structure based on your needs, locating qualified Directors and Money Laundering Compliance Officer
- Assistance in opening bank accounts or custodian accounts with a reputable bank
- Drafting of the Private Placement Memorandum to fit your needs
- Drafting the Memorandum and Articles of Association and registering the Company with the Cyprus Registrar of Companies
- Completion of application forms, checklists, questionnaires and submission to Central Bank of Cyprus (CBC) or CySEC
- Support in connection with follow up questions from CBC or CySEC following the examination of the application package

Following successful registration of the Fund we offer fund administration services including:

- Dealing with subscriptions/redemptions of participatory shares from unit holder
- Computing monthly Net Asset Values and communicating to unit holders
- Maintaining up-to-date accounting books and records
- Fulfilling the funds reporting obligations (reports, prudential returns) with the CBC on a quarterly, six monthly, yearly basis.
- Preparation and filing monthly and quarterly statistical data to the CBC

For specialist advice or further clarifications you may contact one of our professional consultants.

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