



cutting through complexity

FINANCIAL SERVICES

Alternative Investment Fund Managers (AIFMs)

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Introduction

The Alternative Investment Fund Managers Directive (AIFMD 2011/61/EU), entered into force on 21st July 2011, with the aim of providing for an internal market for Alternative Investment Fund Managers (AIFMs) and a harmonised regulatory and supervisory framework for the activities within the EU of all AIFMs. The key objectives were to reduce systemic risk and enhance investor protection, with the corresponding benefit for AIFMs being a pan-European “passport” to provide management services and distribute funds across the EU.

Why AIFMs in Cyprus?

Cyprus has the tools to develop as a preferred platform for the cross border placement of Alternative Investment Funds (AIFs) to professional investors in the EU, while concurrently allowing non-EU managers to access the European market by choosing Cyprus as their Member State of Reference and entrance point into the EU. Once authorised in Cyprus, an AIFM is granted rights to the European “passport” allowing them to offer their services and market their AIFs cross border.

Cyprus – an attractive solution for the establishment and operation of AIFMs:

- Member of the EU, Eurozone and OECD;
- Attractive tax environment with one of the lowest corporate income tax rates in the EU and Eurozone at 12,5%;
- Rigorous anti-money laundering regulations;
- Modern and transparent legal system based on common law;
- Significant number of multinational companies and international banking units, further empowering the productive and positive nature of the business environment;
- Multilingual and highly educated workforce possessing international professional qualifications;
- Highly skilled service providers specialised in servicing the fund industry, offering a wide range of customised services in fund and acquisition structuring, fund administration, custody and audit services;
- Highly competitive professional services fees compared to other European jurisdictions, without compromising the level of quality of the service provided;
- Strategically located in the eastern Mediterranean Sea in the middle of three continents – namely Asia, Europe and Africa – and offering a gateway to the Middle East;
- A great place to live and work, offering high calibre business services, efficient tax and cost environment, as well as security and safety for the whole family, culture, history and fabulous weather.

Legal Framework

On 5th July 2013 Law 56(I)/2013 (AIFM Law) came into effect transposing the AIFMD into Cyprus legislation. The AIFM Law closely follows the context of the AIFMD and sets out the legal framework that will apply to an AIFM with regard to authorisation, capital requirements and operating conditions, governance and risk management, delegation rules, remuneration, reporting, depositary regime and marketing conditions.

The accompanying detailed AIFMD implementing measures and technical rules adopted by the European Commission which substantiate the framework directive take the form of EU Regulations and as such are directly applicable in Cyprus, without the need for any local transposition. Commission Delegated Regulation 231/2013 (Level 2) applies as from 22nd July 2013 and supplements the AIFMD with regard to exemptions, general operating conditions, depositary provisions, leverage, transparency and supervision.

The competent authority for regulating and supervising AIFMs under the AIFM Law is the Cyprus Securities and Exchange Commission (CySEC).

Application of AIFM Law

The AIFM Law shall apply in particular to the following activities:

- A Cyprus AIFM managing Cyprus AIFs or AIFs of another Member State or third country;
- An EU or third country AIFM managing Cyprus AIFs;
- A Cyprus AIFM marketing units or shares of AIFs they manage in other Member States or third countries;
- An EU or third country AIFM marketing units or shares of AIFs they manage in Cyprus.

The Product Test – identify the AIF

The AIFM Law defines an AIF as a collective investment undertaking which:

- raises external capital from a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of its investors; and
- is not an Undertaking for Collective Investment in Transferable Securities (UCITS).

The following are specifically excluded: holding companies, joint ventures, securitisation special purpose entities, pension funds, employee participation schemes or employee savings schemes, and family office vehicles.

The Manager Test – determine the AIFM

An investment fund manager offering services to AIFs shall be authorised as a Cyprus AIFM if:

- its head and registered offices are located in Cyprus;
- it is a legal person whose regular business is managing one or more AIFs irrespective of their legal form and whether they are established in the EU or not, open-ended or closed-ended, listed or non-listed, etc.; and
- the aggregate of the assets under management (AuM) of all AIFs managed by the investment fund manager exceeds:
 - (i) EUR 100 million (including leverage), or
 - (ii) EUR 500 million (for unleveraged funds but with a lock-up period of 5 years).

The AIFM can be the external manager of the AIF, or even the AIF itself where its legal form permits it and its governing body chooses not to appoint an external AIFM (i.e. internally managed AIF).

The Regime Test – registration vs the possibility to opt in

Investment fund managers whose aggregate AuM do not exceed the thresholds are exempt from authorisation, but are however subject to registration and reporting requirements in their home Member State. Meanwhile, such managers established in Cyprus may elect to opt-in to authorisation under the AIFM Law.

Grand-fathering provisions apply under certain circumstances for closed-ended AIFs, being:

- (i) Closed-ended AIFs which are fully invested as of 22nd July 2013;
- (ii) Closed-ended AIFs that are fully subscribed as of 21st July 2011 and whose term expires by 22nd July 2016 are only subject to reporting requirements.

AIFM Functions

A Cyprus AIFM may be authorised to perform the following functions:

Core Functions

The AIFM shall engage, at least, in the following investment management functions when managing an AIF:

- Portfolio management;
- Risk management.

Additional Functions

The AIFM may additionally be authorised to perform any of the following functions in the course of the collective management of an AIF:

- Administration:
 - legal and fund management accounting services;
 - customer inquiries;
 - valuation and pricing, including tax returns;
 - regulatory compliance monitoring;
 - maintenance of unit/shareholder register;
 - distribution of income;
 - issues and redemptions of unit/shares in the AIF;
 - contract settlements, including certificate dispatch;
 - record keeping;
- Marketing services; and/or
- Activities related to the assets of the AIF, namely services necessary to meet the fiduciary duties of the AIFM, facilities management, real estate administration activities, advice to undertakings on capital structure, industrial strategy and related matters, advice and services relating to mergers and the purchase of undertakings and other services connected to the management of the AIF and the companies and other assets in which it has invested.

Additional Investment Services

Subject to compliance with the relevant MiFID rules without separate MiFID authorisation being required, **an external AIFM** may also be authorised to provide the following MiFID services:

- (individual) management of portfolios of investments including those owned by pension funds and institutions for occupational retirement, in accordance with mandates given by investors on a discretionary, client-by client basis;
- and (once individual portfolio management is provided, then it may further be authorised to provide):
 - investment advice;
 - safe-keeping and administration in relation to shares or units of collective investment undertakings;
 - reception and transmission of orders in relation to financial instruments.

Dual License

An external AIFM may in addition obtain a license to act as a UCITS management company subject to authorisation under the UCITS IV Directive (2009/65/EC).

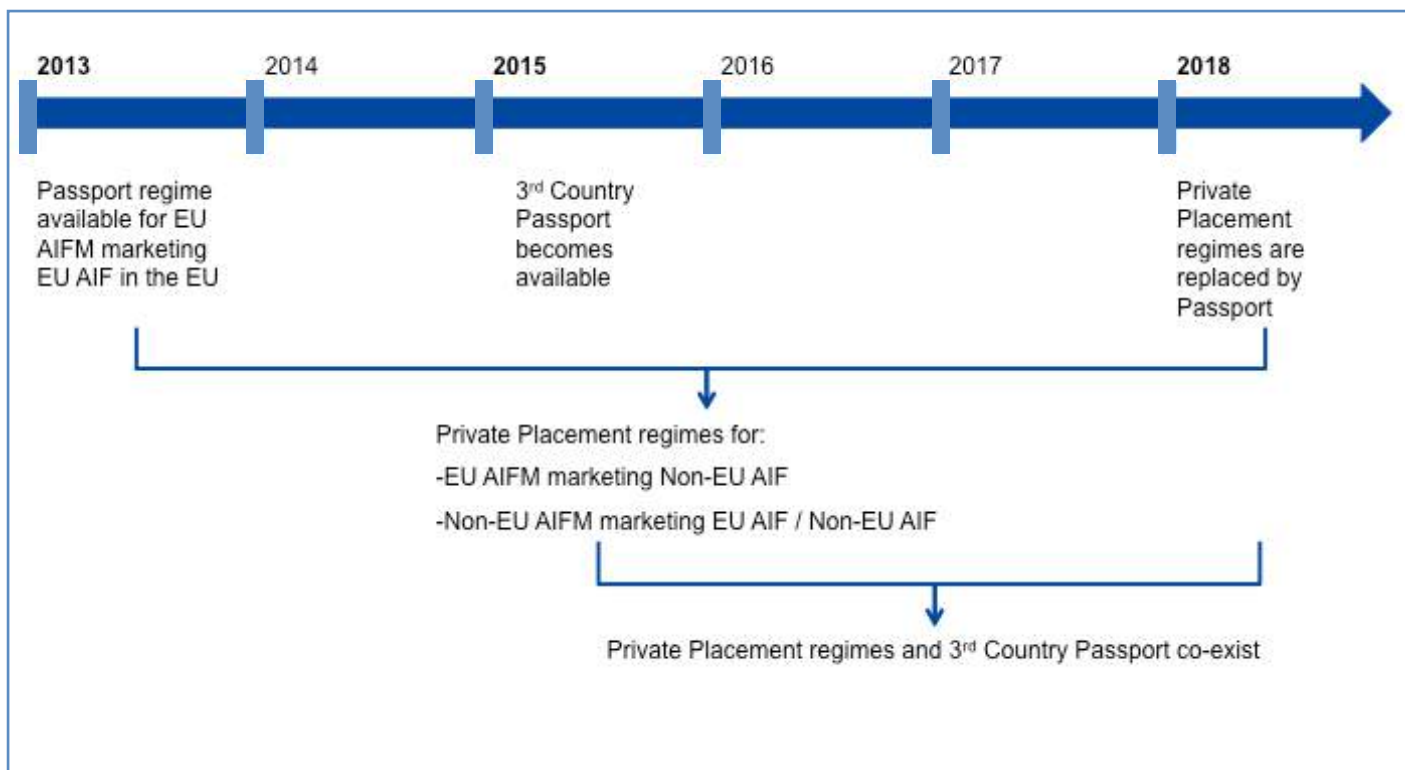


Marketing – Passport and Third Country Rules

The AIFMD introduces a “passport” for the distribution of units of AIFs to professional investors in the EU. Cyprus AIFMs once authorised by CySEC can market the EU AIFs they manage to professional investors in all other Member States using the simplified regulator-to-regulator notification mechanism as opposed to having to seek permission from each Member State and comply with different national laws.

The AIFMD provides a more complex and delayed transposition schedule applicable to non-EU AIFMs and non-EU AIFs. In these cases, national rules will remain applicable while concurrently the non-EU AIFMs and/or non-EU AIFs shall be subject to compliance with some requirements of the AIFMD. The intention is that the passport regime shall become available to non-EU AIFMs and non-EU AIFs by July 2015. From July 2015 through to July 2018, there will be a transitional period during which both private placement regimes and the passport will coincide, after which it is intended that the private placement regimes will no longer be applicable.

Marketing Timeline



Case Studies

We examine below in more detail the marketing regimes applicable and the requirements under the AIFM Law for the following cases:

1. a Cyprus AIFM marketing a non-EU AIF in Europe;
2. a Cyprus AIFM managing a non-EU AIF not marketed in Europe;
3. a non-EU AIFM marketing an EU AIF in Europe, having Cyprus as its Member State of Reference (MSR);
4. a non-EU AIFM managing an EU AIF not marketed in Europe, having Cyprus as its MSR; and
5. a non-EU AIFM marketing a non-EU AIF in Europe, having Cyprus as its MSR.



A. Through Private Placement (allowed until 2018)

A Cyprus AIFM may market a non-EU AIF to professional investors in the EU under the national private placement regimes (and those EU AIFs which are feeders of a non-EU AIF master-fund) provided that:

- it is authorised under and complies in full with the AIFM Law except for the depositary provisions (however, an entity performing equivalent tasks has to be appointed subject to certain conditions);
- the third country where the non-EU AIF is established is not listed by the Financial Action Task Force (FATF) as a Non-Cooperative Country and Territory (NCCT); and
- appropriate Cooperation Arrangements are in place between CySEC and the regulator in the country of establishment of the non-EU AIF.

B. Through Third Country Passport (expected to be introduced as from 2015)

A Cyprus AIFM can use the third country passport to market a non-EU AIF to professional investors in the EU (and those EU AIFs which are feeders of a non-EU AIF master-fund), provided that:

- the AIFM complies in full with the AIFM Law;
- the third country where the non-EU AIF is established is not listed by the FATF as a NCCT;
- Tax Information Exchange Agreements are in place between the country of establishment of the non-EU AIF and (i) the Cyprus authorities, and (ii) each other Member State in which the AIF is marketed; and
- appropriate Cooperation Arrangements are in place between CySEC and the regulator in the country of establishment of the non-EU AIF.

2



Through Private Placement In Third Countries

A Cyprus AIFM may manage a non-EU AIF that is not marketed to professional investors in the EU provided that:

- the AIFM is authorised under, and complies in full with the AIFM Law (except for the depository and annual report provisions); and
- appropriate Cooperation Arrangements are in place between CySEC and the regulator in the country of establishment of the non-EU AIF.





3



A. Through Private Placement (allowed until 2018)

A non-EU AIFM may market an AIF established in Cyprus or in any other EU Member State to professional investors in the EU under the national private placement regimes provided that:

- it complies (in respect of the EU AIF marketed) with certain AIFMD transparency requirements (annual reports, investor disclosure, reporting obligations to regulators in EU Member States where the AIF is marketed) and, if relevant to the AIF, with AIFMD rules on the acquisition of control of non-listed companies;
- appropriate Cooperation Arrangements are in place between the authorities in the country of establishment of the non-EU AIFM and (i) the regulator in the Member State of establishment of the EU AIF and (ii) each of the Member States where the EU AIF shall be marketed; and
- the third country where the non-EU AIFM is established is not listed by the FATF as a NCCT.

B. Through Third Country Passport (expected to be introduced as from 2015)

A non-EU AIFM, in order to benefit from the third country passport, will need to determine a MSR, which under certain circumstances can be Cyprus. In this regard the non-EU AIFM:

- will need to obtain prior authorisation from CySEC;
- must appoint a legal representative in Cyprus who shall be the single point of contact of the AIFM in the EU and shall also perform the compliance function;
- will need to comply in full with the AIFM Law (or, if compliance with a provision is impossible because of mandatory local law applicable to the non-EU AIFM, the latter complies with an equivalent local law having same regulatory purpose/offering same level of investor protection). CySEC's supervisory functions may not be prevented by the non-EU country's laws governing the AIFM or any limitations on its regulatory powers; and
- appropriate Cooperation Arrangements will need to be in place between the authorities in the country of establishment of the non-EU AIFM, and (i) CySEC and (ii) the regulator in the Member State of establishment of the EU AIF.

Regarding the third country of establishment of the non-EU AIFM:

- Tax Information Exchange Agreements will need to be in place between the Cyprus authorities and the authorities of such third country; and
- it cannot be listed by the FATF as a NCCT.



A. Prior to the Introduction of Third Country Passport (expected to be introduced as from 2015)

Prior to the introduction of the Third Country Passport, a non-EU AIFM may manage an AIF established in Cyprus or in any other EU Member State that is not marketed to professional investors in the EU subject to the requirements of the national laws of the domicile of the EU AIF.

B. Through Third Country Passport (expected to be introduced as from 2015)

Following the introduction of the Third Country Passport, a non-EU AIFM may manage an AIF established in Cyprus or in any other EU Member State that is not marketed to professional investors in the EU provided that it determines a MSR, which under certain circumstances can be Cyprus. A description of the rules applicable in such a case is set out in Section B of Case Study 3.



5



A. Through Private Placement (allowed until 2018)

A non-EU AIFM may market a non-EU AIF to professional investors in the EU under the national private placement regimes, provided that:

- it complies (in respect of the AIF marketed) with certain AIFMD transparency requirements (annual reports, investor disclosure, reporting obligations to regulators in EU Member States where the AIF is marketed) and, if relevant to the AIF, with AIFMD rules on the acquisition of control of non-listed companies;
- appropriate Cooperation Arrangements are in place between the authorities in each of the Member States where the non-EU AIF shall be marketed and the country(ies) of establishment of (i) the non-EU AIFM and (ii) the non-EU AIF; and
- in addition, the country(ies) of establishment of the non-EU AIFM and non-EU AIF cannot be listed by the FATF as a NCCT.

B. Through Third Country Passport (expected to be introduced as from 2015)

A non-EU AIFM, in order to benefit from the third country passport, will need to determine a MSR, which under certain circumstances can be Cyprus. In this regard the non-EU AIFM:

- will need to obtain prior authorisation from CySEC;
- must appoint a legal representative in Cyprus who shall be the single point of contact of the AIFM in the EU and shall also perform the compliance function;
- will need to comply in full with the AIFM Law (or, if compliance with a provision is impossible because of mandatory local law applicable to the non-EU AIFM, the latter complies with an equivalent local law having same regulatory purpose/offering same level of investor protection). CySEC's supervisory functions may not be prevented by the non-EU country's laws governing the AIFM or any limitations on its regulatory powers; and
- appropriate Cooperation Arrangements will need to be in place between CySEC and the authorities in the country(ies) of establishment of (i) the non-EU AIFM and (ii) the non-EU AIF.

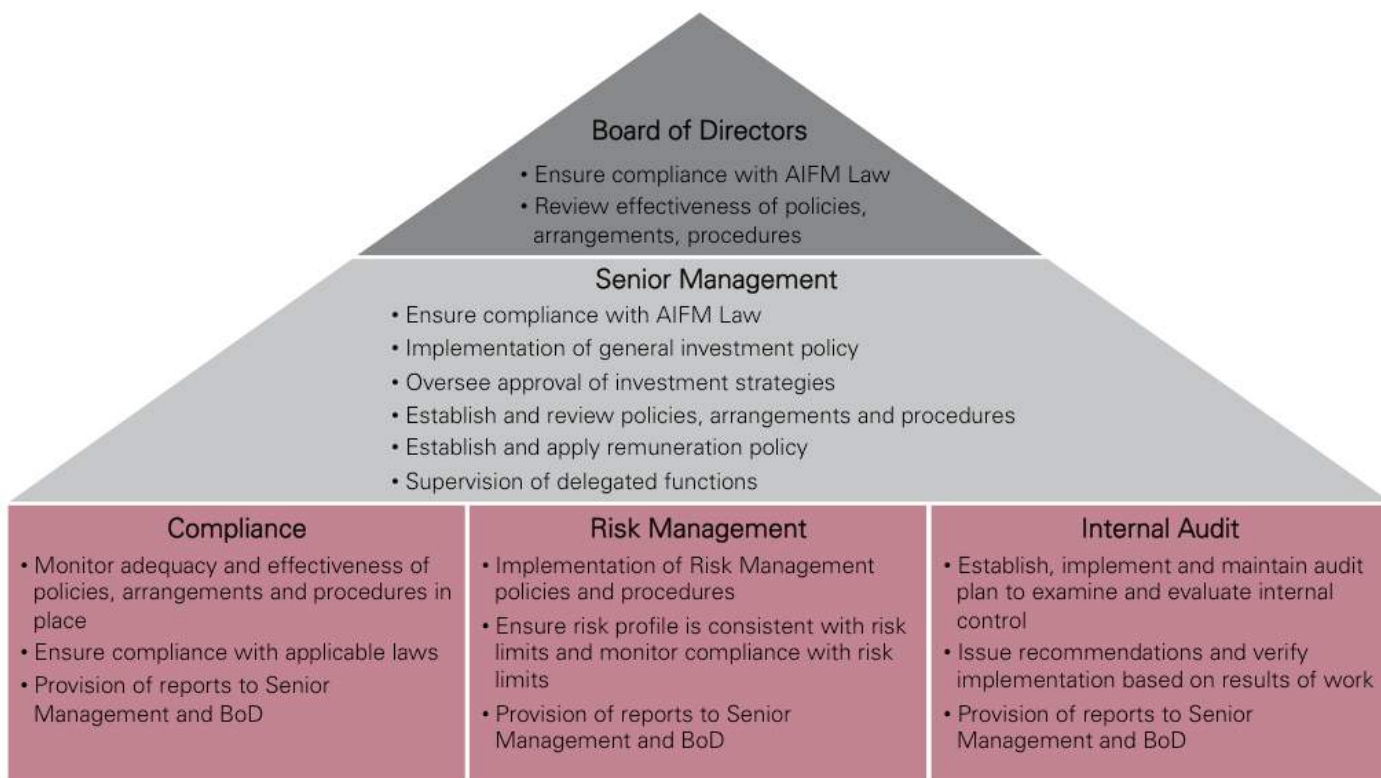
Regarding the third country(ies) of establishment of the non-EU AIFM and/or the non-EU AIF:

- Tax Information Exchange Agreements will need to be in place between (i) the Cyprus authorities and the authorities of the country of establishment of the non-EU AIFM, (ii) the Cyprus authorities and the authorities of the country of establishment of the non-EU AIF, and (iii) the authorities of the country of establishment of the non-EU AIF and each of the Member States where the AIF shall be marketed; and
- it/they cannot be listed by the FATF as a NCCT.

Organisational Structure and Requirements

Internal Control Structure

The AIFM Law requires that a Cyprus AIFM establish an internal control structure with hierarchically and functionally independent Compliance, Risk Management and Internal Audit functions.



General Principles

The AIFM Law sets out the following general conduct of business principles:

Conduct of business principles

- act honestly, with due skill, care and diligence and fairly in the conduct of its activities; and
- act in the best interests of the AIFs or the investors of the AIFs they manage and the integrity of the market; and
- have and employ effectively the resources and procedures that are necessary for the proper performance of its business activities; and
- take all reasonable steps to avoid, manage and monitor conflicts of interest and, where applicable, disclose those conflicts of interest in order to prevent them from adversely affecting the interests of the AIFs and their investors and to ensure that the AIFs they manage are fairly treated; and
- comply with all regulatory requirements applicable to the conduct of its business activities; and
- treat all AIF investors fairly with no preferential treatment to investors unless disclosed in the AIF’s constitutional documentation.

Procedures, Arrangements and Mechanisms Applied by the Cyprus AIFM

The AIFM shall use, at all times, adequate and appropriate human and technical resources that are necessary for the proper management of AIFs proportional to the size, nature, scale and complexity of the business and activities undertaken in the course of that business.

An AIFM is required to establish, implement and maintain the following:

General Requirements	<ul style="list-style-type: none"> • decision-making procedures and an organisational structure which specifies reporting lines and allocates functions and responsibilities in a documented manner; • adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels; • effective internal reporting and communication of information at all relevant levels and effective information flows with any third party involved; • systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information; • an adequate business continuity policy.
Risk Management	<ul style="list-style-type: none"> • adequate risk management systems in order to identify, measure, manage and monitor (including appropriate stress testing procedures) all risks relevant to each AIF investment strategy and to which each AIF is or may be exposed; • appropriate, documented and regularly updated due diligence process in compliance with the objectives, the investment strategy and, where applicable, the risk limits of each AIF.
Liquidity Management	<ul style="list-style-type: none"> • liquidity management systems to monitor the liquidity risk of each AIF.
Conflicts of Interest	<ul style="list-style-type: none"> • effective organisational and administrative arrangements with a view to taking all reasonable steps designed to identify, prevent, manage and monitor conflicts of interest (eg. rules for employees personal transactions).
Remuneration	<ul style="list-style-type: none"> • remuneration policies and practices that are consistent with and promote sound and effective risk management.
Electronic Data Processing	<ul style="list-style-type: none"> • appropriate and sufficient arrangements for suitable electronic systems.
Accounting Procedures	<ul style="list-style-type: none"> • sound accounting policies and procedures and valuation rules.

The AIFM shall monitor and, on a regular basis, evaluate the adequacy and effectiveness of their systems, policies, procedures and arrangements and take appropriate measures to address any deficiencies.

before the delegation arrangement becomes effective. The entire delegation structure must be justified on objective reasons such as the optimisation of business functions and processes, cost saving, the expertise of the delegate in certain aspects, and access to global trading facilities.

Delegation

The AIFM may be able to delegate the carrying out of some of its functions to third parties subject to certain limitations and requirements which shall vary depending on the type of function being delegated and provided the delegate has an appropriate organisational structure to support the performance of the delegated tasks. Any delegation by an AIFM of any of its functions must be notified to CySEC

Organisational Requirements at Level of the AIF

Depositary

An AIFM shall, for each AIF it manages, appoint a single depositary who shall be responsible for performing the following services:

- cash flow monitoring ensuring that the AIF's cash flows are booked at eligible entities and are properly monitored;
- safekeeping the AIF's assets comprising:
 - holding in custody all financial instruments, which can be registered in the depositary's books and those that can be physically delivered; and
 - for other assets, verifying the ownership of the AIF and maintaining an up-to-date record of those assets;
- oversight functions, ensuring compliance with the AIF's constitutional documentation, valuation procedures and with applicable law and regulation.

The depositary shall be:

- a credit institution having its registered office in the European Union;
- an investment firm authorised under MiFID for providing the ancillary service of safekeeping and administration of financial instruments for the account of clients; or
- another category of institution subject to prudential regulation and ongoing supervision.

The depositary shall be established:

- for EU AIFs, in the home Member State of the AIF;
- for non-EU AIFs, in the third country where the AIF is established or in the home Member State of the AIFM or in the Member State of Reference of the AIFM managing the AIF.

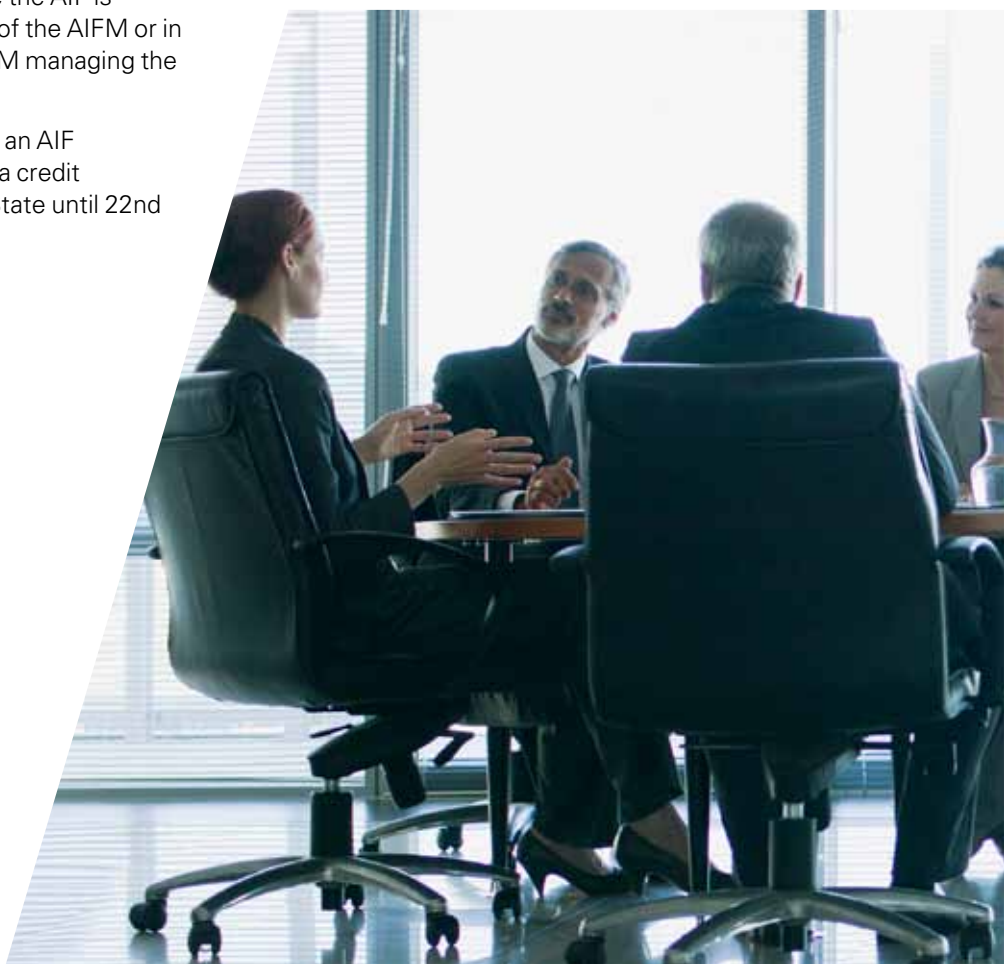
The AIFM Law provides the flexibility that for an AIF authorised in Cyprus, the depositary may be a credit institution located in any other EU Member State until 22nd July 2017.

Independent Valuer

An AIFM shall ensure that for each AIF it manages it shall have appropriate and consistent procedures in place to ensure that a proper and independent valuation of the assets can be performed in accordance with the AIFM Law, applicable national law, and constitutional documentation of the AIF. Such valuation function shall either be performed by:

- an independent external valuer, being a legal or natural person, subject to mandatory professional registration recognized by law or to legal or regulatory provisions or rules of professional conduct; or
- the AIFM itself, provided that the valuation task is functionally and hierarchically independent from the portfolio management and the remuneration policy and other measures established by the AIFM ensure that conflicts of interest are mitigated and that undue influence upon the employees is prevented.

The appointed external valuer shall not delegate the valuation function to a third party.



Authorisation Procedure

Conditions for Granting Authorisation

A Cyprus AIFM submitting an application for authorisation under the AIFM Law must be a limited liability company with shares, subject to the provisions of the AIFM Law and the provisions of the Companies Law. It shall satisfy, among other, the following conditions:

- (a) sufficient initial capital and own funds (see "Share Capital Requirements" further down);
- (b) the persons who effectively conduct the business of the AIFM are of sufficiently good repute and are sufficiently experienced also in relation to the investment strategies pursued by the AIFs managed, and the conduct of the business of the AIFM being decided by at least two persons meeting such conditions;
- (c) the suitability of the AIFM's qualifying shareholders (i.e. shareholders with direct or indirect holding of 10% or more of the capital or voting rights of the AIFM) towards ensuring sound and prudent management; and
- (d) the head office/central management and the registered office of the AIFM are located in Cyprus.

Changes in the scope of authorisation

The Cyprus AIFM is required to pre-notify CySEC of any material changes to the information provided in its application for authorisation that may substantially affect the conditions under which the authorisation has been granted. CySEC shall, within one month of such notification, inform the AIFM of its decision to reject or impose restrictions to such changes.



The Application for Authorisation

The application to CySEC for the granting of an authorisation shall consist of the Application Form provided by CySEC which is to be accompanied, among others, by the following documents/information which relate to the Cyprus AIFM, the AIFs managed and any additional information to be required in order to offer cross-border services:

AIFM related information:

- Detailed Business Plan;
- Internal Regulations Manual;
- Organisational Structure;
- Memorandum and Articles of Association;
- Information on the remuneration policies and practices;
- Information on delegation and sub-delegation arrangements of functions to third parties;
- Information on:
 - (1) the persons effectively conducting the business of the AIFM, their good repute and experience in the AIF investment strategies, and
 - (2) the details of the direct and indirect shareholders of the AIFM that have qualifying holdings and of the amounts of those holdings.

AIF related information:

- Investment strategies (including the types of underlying funds if the AIF is a fund of funds), and the risk profiles and other characteristics of the AIFs it manages or intends to manage, and location (including the location of any underlying master fund);
- The AIFM's policy as regards the use of leverage;
- Constitutional documents;
- Depositary arrangements;
- Prospectus/Investors disclosure document.

Additional information if the Cyprus AIFM wants to manage EU AIFs established in other Member States (Passport):

- The Member State in which it intends to manage AIFs directly or establish a branch;
- A programme of operations stating services to be performed;
- List of AIFs it intends to manage;
- The organisational structure of the branch, the names and contact details of the branch management, and the branch address (if relevant).

There are specific conditions for UCITS Management Companies applying for an AIFM license, expressly mentioning that the competent authority cannot require information or documents already submitted for the UCITS license application.





Timeframe

Applicants will be notified within 3 months of the submission of a complete application of whether the authorisation is granted, which period can be extended for a further 3 months if required. CySEC may restrict the scope of authorisation as regards the investment strategies that an AIFM is allowed to manage.

The applicant shall make use of the authorisation within 12 months of its granting.

Share Capital Requirements

The AIFM Law sets out requirements for initial capital and own funds, as detailed in the table below:

	Internally Managed AIF	External AIFM
Initial Capital	€300.000	€125.000
Plus: Additional Own Funds^{1&4}	0,02% of the amount by which the value of the AuM ² of the AIFM exceeds €250 million. Maximum total of €10 million. At all times, shall never be less than 25% of the preceding year's fixed overheads.	
Plus: To Cover Potential Professional Liability Risks³	Either: <ul style="list-style-type: none"> • Additional Own Funds⁴ equal to 0,01% of the AuM, valuing derivative at market value. CySEC may lower to 0,008% on the basis of historical loss data for a 3-year period or may increase if not satisfied that the AIFM has sufficient funds; or • Professional Indemnity Insurance covering 0,9% of the AuM for claims in aggregate per year, and 0,7% of AuM per individual claim; in such case the AIFM would need to maintain own funds that are equivalent to the value of the excess under the policy. 	

1. May provide up to 50% of such additional own funds in the form of a guarantee given by a credit institution or an insurance undertaking with its registered office in a Member State, or in a third country where it is subject to prudential rules equivalent to those of the EU.

2. Only includes those AIFs for which the AIFM is the appointed AIFM and excludes assets managed on a delegated basis.

3. The adequacy of such funds or insurance should be reviewed at least once a year.

4. Own funds must be invested in liquid assets or assets readily convertible to cash in the short term, and should not include speculative positions.



AIFM Offering MiFID Discretionary Portfolio Management Services

Where a Cyprus AIFM also provides individual portfolio management (in compliance with MiFID), it shall also be subject to the following:

- the own funds of the AIFM cannot be less than that required by Directive 2006/49/EC (capital adequacy directive) in respect of MiFID investment firms and may be higher given the requirements for additional professional indemnity cover; and
- it has to participate in an Investor Compensation Scheme, which is subject to annual subscriptions.

Application & Annual Fees*

Service	Application (€)	Annual (€)
AIFM Authorisation		
AIFM License	2.000	2.000
Additional Authorisations		
UCITS Management	1.000	
MiFID Services		
Individual Portfolio Management	1.500	
Investment Advice	1.000	
Safekeeping and Administration	500	
Reception and Transmission of Orders	1.500	
Non-EU AIFM – Cyprus as Member State of Reference		
Authorisation to manage EU AIF	2.000	2.000
Authorisation to market EU AIF or non-EU AIF in Cyprus	1.000	1.000

There are a number of additional fees to be paid to CySEC regarding delegation, setting up of a branch, and notification for marketing with or without a passport, as applicable in the relevant scenarios.

Transparency Requirements

The disclosure requirements under the AIFM Law can be split into two groups, being (i) disclosure to investors, both initial and ongoing, and (ii) reporting to regulators.

Disclosure Requirements to Investors

<p>Initial Disclosure (before they invest)</p>	<ul style="list-style-type: none"> • the type of investment vehicle, description of the investment strategy and objectives of the AIF; • types and sources of leverage, any collateral and re-use arrangements; • how changes in strategy may be implemented; • description of the AIF's valuation procedures, fees, charges and expenses and of the maximum amounts thereof which are directly or indirectly borne by investors; • provisions to ensure fair treatment of investors; • procedure and conditions for the issue and redemption of units or shares; • description of the AIF's liquidity risk management procedures; • the latest annual report; • the latest net asset value of the AIF or the latest market price of the unit or share of the AIF; • the historical performance of the AIF; • identity of the service providers (AIFM, depositary, valuer, auditor, prime broker, etc.) and a description of their duties and investor's rights; • description of any delegated management function and any safekeeping function delegated by the depositary; • any contractual discharge of liability by the depositary; • main legal implications of contractual relationship entered into for purpose of investment (jurisdiction information, applicable law, etc.); and • a description of how the AIFM is complying with the requirement that it have additional funds or hold professional indemnity insurance to cover potential professional liability risks.
<p>Ongoing Disclosure (made at least annually, or more frequent depending on AIF's constitutional documentation)</p>	<ul style="list-style-type: none"> • the percentage of the AIF's assets which are subject to special arrangements arising from their illiquid nature (e.g. side pocket arrangements); • any new liquidity management arrangements; • the current risk profile of the AIF and the risk management systems employed to manage those risks; • if the AIF employs leverage, the AIFM must disclose: <ul style="list-style-type: none"> • any change to the maximum level of leverage permitted; • any re-hypothecation rights or any guarantee granted under the leveraging arrangement; and • the total amount of leverage employed by the AIF (Relevant Exposure divided by the net asset value of the AIF).

Material changes to this information must be disclosed to investors, and in particular any change to any arrangement made by the depositary to contractually discharge itself from liability must be notified without delay. Material changes are defined as changes in information by which there is a substantial likelihood that a reasonable investor, becoming

aware of such information would reconsider its investment in the AIF, including for reasons that such information could impact an investor's ability to exercise its rights in relation to its investment, or otherwise prejudice the interests of one or more investors in the AIF.

Reporting Obligations to CySEC

<p>General Reporting Requirement</p>	<p>AIFMs shall regularly report to CySEC on:</p> <ul style="list-style-type: none"> • the principal markets and instruments in which they trade on behalf of the AIFs they manage; • the main categories of assets held by each AIF, including principal exposures and concentrations and markets of which it is a member or actively trades. <p>The following information shall be provided to CySEC for each of the EU AIFs they manage and for each of the AIFs they market in the EU:</p> <ul style="list-style-type: none"> • the percentage of the AIF’s assets which are subject to special arrangements due to illiquidity; • any new liquidity arrangements of the AIF and results of liquidity stress tests; • risk profile of the AIF, risk management systems employed and results of periodic stress tests; • main categories of assets in which the AIF invested.
<p>Information on Leverage (if applicable)</p>	<p>AIF using leverage shall have the following additional reporting requirements:</p> <ul style="list-style-type: none"> • AIF using leverage on a “substantial basis” (exposure of AIF under the Commitment Method exceeds 3 times its net asset value) will need to report on the level of leverage in each AIF distinguishing between sources of leverage, as well as identify the five largest sources of borrowed cash/securities and extent that assets are re-used under leveraging arrangements; • additional reporting may be requested by CySEC on an ad-hoc basis, whenever it considers it necessary for the effective monitoring of systemic risk.
<p>Acquisition Related Disclosure (if applicable)</p>	<p>The AIFM Law provides specific disclosure obligations and anti-asset stripping measures apply to private equity AIF in relation to the acquisition of shares in a listed or non-listed company.</p> <ul style="list-style-type: none"> • If the voting rights of the non-listed company exceed or fall below the thresholds of 10%, 20%, 30%, 50% and 75%, then the AIFM must notify CySEC of the proportion of voting rights held by the AIF. • In case of acquisition of control in a listed company additional information is to be provided. There are exemptions for real estate SPV’s and SMS vehicles.
<p>Annual Report</p>	<p>Annual Report of each EU AIF it manages and each AIF it markets in the EU for each financial year no later than six months following the end of the financial year (and where applicable to the competent authorities of the home Member State of the AIF).</p> <p>The Annual Report shall at a minimum contain:</p> <ul style="list-style-type: none"> • a balance sheet or a statement of assets and liabilities of the AIF; • an income and expenditure account of the AIF for the financial year; • a report on the activities of the AIF for the financial year; • any material changes in the information listed under the section “initial disclosure requirements to investors” of this present publication during the financial year covered by the report; • the total amount of remuneration for the financial year, split into fixed and variable remuneration, paid by the AIFM to its staff, and number of beneficiaries, and where relevant, carried interest paid by the AIF; • 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. <p>The accounting information given in the annual report should be prepared in accordance with the accounting standards in the AIF Member State and audited by an approved auditor.</p>
<p>Other</p>	<p>AIFMs shall provide to CySEC a detailed list of all AIFs they manage as at the end of each quarter.</p>



Reporting Frequency

The reporting frequency for the information required under the "General Reporting Requirement" above is dependent on (i) the amount of assets managed by the AIFM for information to be reported at the level of the AIFM and (ii) on the size of each fund for AIF-related information. This means that for each of the EU AIFs managed and for each of the AIFs marketed in the EU, an AIFM:

- whose AUM meet the de minimis €100 million threshold (leveraged) or €500 million threshold (unleveraged), shall report **annually**;
- whose AUM exceed the de minimis thresholds but do not exceed €1 billion, shall report **semi-annually**;
 - for each AIF whose AUM exceed €500 million, including assets acquired through the use of leverage, shall report on a **quarterly basis** in respect of such AIF;
- whose AUM exceed €1 billion, shall report on a **quarterly basis**.

AIFM shall also report annually in respect of each unleveraged AIF under their management which, in accordance with its core investment policy, invests in non-listed companies and issuers in order to acquire control.

Tax Considerations

Corporate Taxation

Registration with the Cyprus Income Tax Authorities

The Cyprus AIFM is liable for registration with the Cyprus Income Tax Authorities for the purposes of obtaining a Tax Identification Number within 60 days from the date of its incorporation as a company and not from the date when the AIFM obtains CySEC authorisation.

Significant Tax Considerations

If adhering to tax residency requirements and maintaining management and control in Cyprus, the AIFM will be eligible for the enjoyment of:

- 12,5% Corporate Income Tax Rate on income accrued from the carrying out of the AIFM's operations (core and additional functions and additional investment services if applicable) following the deduction of expenses incurred wholly and exclusively in the production of income including but not limited to office costs, payroll and outsourcing costs; and
- no withholding tax on income repatriation by the AIFM to non-resident shareholders.

Other Tax Considerations

In the event where the Cyprus AIFM derives income from sources other than those outlined above, income may be exempted from or subject to tax accordingly. The benefits of the Cyprus tax framework will still be available to the AIFM, including but not limited to:

- exemption from tax on foreign dividends subject to moderate conditions relating to source and taxation of income distributed as dividends with no minimum participation threshold imposed;
- exemption from tax on any income arising from trading in securities. The term 'Securities' includes but is not limited to: shares and share options as well as other options on titles, debentures, bonds and rights of claims thereon, participations in companies, units in open-end or closed-end collective investment schemes such as Mutual Funds, International Collective Investment Schemes (ICIS)/ Alternative Investment Funds (AIFs) and Undertakings for Collective Investments in Transferable Securities (UCITS);
- if related to the AIFM's ordinary course of business and therefore deemed as "active interest income", interest received by a regulated AIFM will be taxed at 12,5% corporate income tax;

- extensive Double Tax Treaty Network (more than 43 treaties concluded); and
- full harmonisation with the EU Directives.

Value Added Tax

A Cyprus AIFM's revenues are mainly exempt for VAT purposes in Cyprus. The Cyprus VAT Legislation provides specific guidance with respect to the meaning of "funds and management of mutual funds" that would benefit from this VAT exemption. In this respect "fund management services" that are offered to mutual funds include the following main categories of services: investment management, administration, and promotion/marketing.

Nevertheless, the AIFM in Cyprus might become liable to obtain a VAT number in Cyprus not only as a result of its revenue activities but also as a result of acquisition of certain types of services from outside Cyprus (e.g. advertising) or goods over certain threshold from other EU Member States.

Depending on the exact nature of the services provided by a Cyprus AIFM and on whether it acquires taxable services from service providers established outside Cyprus a liability to self-account for Cypriot VAT under the reverse charge mechanism might arise, resulting in additional cash outflow. Whether the AIFM can recover input VAT as a credit from the Cypriot VAT Authorities, this would very much depend on where its clients are established and on the partial exemption method used. Where a special partial exemption (apportionment) method is to be used, that method needs to be agreed in advance with the Cypriot VAT Authorities.

How Can KPMG Help?

KPMG Cyprus holds a market leader position in the area of fund services.

KPMG operates through fully integrated teams that include professionals across our Audit, Tax and Advisory practices who combine a wide range of skills and experience tailored to meet the individual requirements of our clients. All teams have a rich experience and commitment, ensuring that clients will be working with teams that understand them, their needs and the market.

Our Services in connection with the establishment and operation of a Cyprus AIFM include, but are not limited to:

Understanding of Impact of Legislation

- advice on applicability of the scope of the AIFM Law on your organisation, optimisation of your fund/business structure and advice on the use of exemptions;
- domains impacted (e.g. depositary requirements, remuneration, valuation, and disclosure and reporting requirements).

Regulatory and Compliance Services

License application

- support in AIFM license authorisation (which includes acting as Promoter of the AIFM throughout the application process with CySEC) or AIFM registrations;
- complete/review necessary application forms/questionnaires of the shareholders/directors/heads of departments;
- prepare/review documentation, including the following, related to the application prior to submission:
 - Internal Regulations Manual;
 - Risk Management and Procedures Manual (including Anti-Money Laundering procedures);
 - Business Plan;
 - Organisational Structure.

Operational compliance

- review and amendment of constitutional documents such as terms for custody, articles of association, offering memorandum in order to safeguard compliance with the AIFM Law;
- review of delegation agreements and other agreements to be entered into by AIFMs and service providers to safeguard compliance with the requirements of the AIFM Law, performing notifications to the relevant supervisory authority in case of delegation of tasks by the manager.

Audit and Regulatory Reporting Services

- conduct audit of the statutory annual financial statements based on International Financial Reporting Standards;
- provide support in the design and implementation of the required reporting framework under AIFM Law.

Direct and Indirect Tax Services

- Tax and VAT advice on Cypriot Tax and VAT implications arising from the operations of an AIFM, including the review from a tax perspective of agreements and key relationships with business associates;
- VAT advice on right to recovery of VAT incurred on purchases and expenses, including partial exemption (apportionment) methods;
- preparation and submission of written requests for Tax and VAT rulings to the Cypriot Authorities regarding the operations of an AIFM;
- assistance with Tax and VAT compliance issues, including assistance with preparation, review and submission of Tax and VAT returns;
- assistance with preparation of objections to assessments raised by the Tax and VAT Authorities, including liaising with the Authorities during the process of examining the objections;
- annual Tax and VAT retainer agreements.

Advisory Services

We can also assist you in a variety of other services, including, but not limited to:

- locate qualified executive and non-executive directors;
- prepare Internal Audit Manual and conduct annual Internal Audit Reviews;
- act as Compliance Officer with regard to legislative matters;
- provide training in different aspects of the regulation (i.e. Anti-Money Laundering, Risk Management, etc.);
- design a reporting and governance framework;
- develop and implement the following technology related systems:
 - IT architecture and automation of business processes;
 - Information Security Policies and an Information Security Program;
 - Business Continuity and Disaster Recovery Plans.



**KPMG can guide
you through the
challenges and
opportunities
posed by the
AIFM Law**



Main Contacts

REGULATORY & COMPLIANCE

Angelos Gregoriades
Chairman
Head of Tax and Corporate Services
T: +357 22 209 245
E: Angelos.Gregoriades@kpmg.com.cy

Marie-Helene Angelides
Senior Associate, Legal Advisor
T: + 357 22 209 227
E: Marie-Helene.Angelides@kpmg.com.cy

Christiana Loizou
Senior Associate, Legal Advisor
T: + 357 22 209 235
E: Christiana.Loizou@kpmg.com.cy

TAX

Costas Markides
Board Member
T: +357 22 209 246
E: Costas.Markides@kpmg.com.cy

Michael Halios
Board Member
T: +357 24 200 222
E: Michael.Halios@kpmg.com.cy

Tassos Yiasemides
Principal
T: +357 22 209 156
E: Anastasis.Yiasemides@kpmg.com.cy

ADVISORY

Iacovos Ghalanos
Board Member
T: +357 22 209 029
E: Iacovos.Ghalanos@kpmg.com.cy

Marios Lazarou
Board Member
T: +357 22 209 107
E: Marios.Lazarou@kpmg.com.cy

AUDIT

Christos Vasiliou
Board Member
Primary Contact
T: +357 22 209 113
E: Christos.Vasiliou@kpmg.com.cy

Demetris Vakis
Board Member
T: +357 22 209 301
E: Demetris.Vakis@kpmg.com.cy

Constantinos Kallis
Board Member
T: +357 22 209 029
E: Constantinos.Kallis@kpmg.com.cy

Costas Kalias
Board Member
T: +357 22 209 133
E: Costas.Kalias@kpmg.com.cy

Haris Kakoullis
Board Member
T: +357 22 209 191
E: Haris.Kakoullis@kpmg.com.cy

Zakis Hadjizacharias
Board Member
T: +357 25 869 139
E: Zakis.Hadjizacharias@kpmg.com.cy

Paris Elia
Board Member
T: +357 24 200 112
E: Paris.Elia@kpmg.com.cy

VAT

Harry Charalambous
Board Member
T: +357 22 209 300
F: +357 22 209 310
E: hcharalambous@kpmg.com

KPMG in Cyprus contact details:

Nicosia

T: +357 22 209 000

F: +357 22 678 200

E: nicosia@kpmg.com.cy

Limassol

T: +357 25 869 000

F: +357 25 363 842

E: limassol@kpmg.com.cy

Larnaca

T: +357 24 200 000

F: +357 24 200 200

E: larnaca@kpmg.com.cy

Paralimni

T: +357 23 820 080

F: +357 23 820 084

E: paralimni@kpmg.com.cy

Paphos

T: +357 26 943 050

F: +357 26 943 062

E: paphos@kpmg.com.cy

Polis Chrysochous

T: +357 26 322 098

F: +357 26 322 722

E: paphos@kpmg.com.cy

www.kpmg.com.cy

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