



New Alternative Investment Funds Law of 2018

Regulatory Update Alert

- More options
- More flexibility

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Regulation Update

The long-awaited bill revising the existing legal framework on Alternative Investment Funds was voted on the 10th of July 2018 by the Cyprus House of Representatives replacing the existing AIF law 131(I) of 2014. It shall come into effect with its publication in the Official Gazette, expected within the next two weeks. This amendment reflects, among others, the latest market demands and the introduction of a new type of Alternative Investment Fund (AIF), the “registered” but not “authorised” AIF, and a new legal form, the Limited Partnership with “separate legal personality”.

These steps aim to optimise Cyprus’ legal framework, enhancing Cyprus as an attractive jurisdiction in particular for private equity funds and a true competitor to other popular jurisdictions for funds and asset management.

Highlights of the changes include the following:



Introduction of new products & structuring possibilities for Limited Partnerships

- Registered AIF
- Enhancement of the Limited Partnership vehicle

Other major changes

- ✓ Introduction of a minimum AuM requirement to be reached within the first 12 months of the launch of the AIF (possible extension to 24 months).
- ✓ Minimum share capital requirement is now valid only for self-managed vehicles, irrespective of the category of AIF.
- ✓ Additional conditions imposed on AIFs with limited number of persons to avail of the depositary exemption for assets which are not subject to custody.
- ✓ Changes in the organisational structure, such as the requirement for an internal regulatory compliance function for AIFs with unlimited number of persons
- ✓ Maximum number of investors limit reduced to 50 from 75 and the introduction of look through provisions for AIFLNPs.



Key features of the new products introduced

Registered AIF

- **Quick and cost efficient fund launch:** Within one month from the date of filling of dully completed “notification pack”, the CySEC will proceed to include the AIF in the list of Registered AIFs.
- **Access to a marketing passport for professional investors across the EU:** Similar to the Luxembourg RAIF, the Cyprus Registered AIF will be able to market to professional investors and/or well-informed investors and will be managed by a full scope Cyprus or EU Alternative Investment Fund Manager (AIFM).
- **Other eligible managers:** In addition to the full scope AIFM, a sub-threshold AIFM which is subject to prudential regulation, a MiFID Investment Firm and UCITS management company established in Cyprus or any EU Member State may also manage a Registered AIF, provided among others that such AIF takes the form of a closed-ended limited partnership and invests more than 70% in illiquid assets.
- **Structuring flexibility:** may be organised in any legal form available under Cyprus Law (investment company with fixed or variable capital, limited partnership or common fund), it can be open or closed-ended and it can follow any strategy and invest in any type of assets (except it cannot be established as a money market, loan origination fund and Fund of Funds).
- **Indirectly subject to regulatory oversight through its AIFM.**

New structuring possibilities for Limited Partnerships

Enhancement of the existing Limited Partnership regime

- **Establishment of a list of non-management safe harbours:** which give confidence and legal certainty to Limited Partners being admitted to a Cyprus limited partnership regarding the activities they may undertake, without undermining their crucial limited liability status.
- **Offers different management structures:** the limited partnership may either be self-managed or appoint its general partner or another appropriately qualified entity to act as its external manager.
- Disapplication of section 47(3) of the General and Limited Partnerships and Trade Names Law Cap 116 (Partnership Law) to remove the restriction on returning capital during the life of the partnership (and thus the obligation to pay the capital back if it is returned).

Parallel modernisation of the Partnership Law will provide greater scope for fund structuring:

- Introducing limited partnerships with legal personality: the general partner to elect upon establishment of a limited partnership to have separate legal personality, while maintaining tax transparency status. This is particularly helpful for funds of funds managers who need a fund structure that can itself invest in other limited partnerships but also allows the establishment of internally managed Limited Partnerships.

Actions to be taken



Existing AIFs will need to comply with any new obligations under the Law within 12 months from its entry into effect.

How can KPMG Help ?

KPMG can offer you a complete turnkey solution for your business needs as it relates to the AIF:



- Starting with the preparation of an impact assessment on your current business and operational model;
- Assist in the implementation phase for any identified gaps;
- Assistance with the preparation of materials and liaising with the regulatory authorities for obtaining authorisation where required;
- Provision of audit, tax, compliance and advisory services during the establishment and throughout the life of the AIF and similarly to its management company.



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