



## **NEWSLETTER: Cyprus International Collective Investment Schemes (ICISs)**

### **1 Introduction: Cyprus as an international financial Centre post EU accession**

Cyprus is a long established reputable international financial centre. It has gained this enviable position through its attractive taxation system and its excellent infrastructure facilities and services, being its location, banking system and the recognised legal and accountancy professions which offer clear advantages over the traditional offshore jurisdictions for those that require non-taxable entities through which to carry out their activities.

Cyprus reputation was further enhanced following its accession to EU on 1 May 2004 that added to the Island's impressive advantages. As part of the accession process towards full membership of the European Union (EU), Cyprus reformed its tax legislation in 2003 to bring it in line with the EU requirements and also within the OECD requirements against harmful tax practices. With the new tax legislation, Cyprus maintains and enhances its competitiveness as an international financial Centre. Cyprus is now an ideal and effective location for EU inbound and outbound investment.

The significant tax advantages that Cyprus has to offer to international business can be summarised as follows:

- member of the European Union so as to avoid the use of suspicious offshore jurisdictions amongst other business partners and government authorities
- the lowest corporation tax rate in the EU (10%)

- access to EU directives
- extensive double tax treaties network
- exemption from tax of profits realised from the sale of securities including shares, bonds, options and other as defined by the income tax law
- exemption from tax (capital gains tax) of gains arising from the disposal of immovable property situated abroad
- exemption from tax in most cases of dividend income
- exemption from withholding tax on the repatriation of income (dividends, interest and on almost all royalties)
- no thin capitalisation rules

### **2 ICISs legal Framework**

The International Collective Investment Schemes Law, 1999 has provided the required legal framework for the registration, regulation of operations and supervision of ICIS.

An ICIS can take one of the following legal forms:

- International fixed capital company
- International variable capital company
- International unit trust scheme
- International investment limited partnership

The sole object of an ICIS is the collective investment of funds of its unit-holders.

Financial services companies, fund managers, investment firms and high net worth individuals in the following circumstances most commonly use ICISs':



- Funds for property investments in central Europe, Russia and ex-CIS countries
  - Accumulation of funds of high net worth individuals in a collective scheme, which is flexible, with minimum regulatory supervision and tradeable
  - Investments in securities, bonds and other financial instruments, capitalising tax free gains
  - Fund of a number of other funds or sub-funds each with a specific objective, projected target return and risk profile
  - Fund managers providing an investment tool for their clients
- ii) licensing and existence of regulatory framework improves transparency and legitimacy with respect to shareholders, employees, authorities etc
  - iii) legislation has been put in place and is constantly under review, to regulate and harmonise operations in the financial services sector
  - vi) Cyprus can be used as a springboard for immediate access and easy setting-up in prestigious financial markets within the EU (Frankfurt, London etc) through the use of Cyprus financial services entities which can operate under a portfolio management license and act as fund managers to ICIS

### **3 Taxation and advantages**

ICISs are subject to tax in an identical manner as any other Cyprus entity. The tax advantages that Cyprus offers to international business are mentioned above. However, in short, what is significant for an ICIS are the following:

- a) exemption from tax on profits from sale of shares and other financial instruments
- b) exemption from tax on foreign dividends received
- c) no withholding taxes on interest and dividend payments made from Cyprus abroad
- d) no withholding tax on income repatriation

Other strong points:

- i) Cyprus is an EU member state and compliant with EU law

### **4 Structures of ICIS**

#### **a. Structure and objectives**

The most commonly used ICIS legal form is that of an **International Variable Capital Company**. This is a company whose legal form is much the same as a Cyprus International Business Company, except that it may have variable capital. In other words, the shares in the company are issued or redeemed as investors buy in or sell their investments in the fund.

The sole object of an ICIS must be the collective investment of funds of the investors/shareholders. The shares issued by an ICIS must, at the option of the investors, be redeemed or repurchased directly out of the assets of the ICIS. The ICIS may be established with unlimited or limited duration.



### **b. Minimum subscription**

The minimum subscription by investors in an ICIS, which is marketed solely to experienced investors, is US\$50,000 or its equivalent in another currency. Private International Collective Investment Schemes do not need to have a minimum subscription.

### **c. Registration process**

ICISs must be approved by the Central Bank of Cyprus, which is the regulatory and supervising authority for the schemes, for their managers and their trustees (where applicable). In this respect, a written application to the Central Bank must be submitted as follows:

- in the case of an international fixed capital and an international variable capital company, the written application must be submitted to the Central Bank by the applicant company or its local professional advisers.
- Pre-printed questionnaires will need to be completed for the Directors (minimum 2) and founder members.
- standard application will need to be completed along with the required details and references.
- an offering memorandum should be prepared that describes the purpose and objectives of the fund and which needs to be approved by the Central Bank of Cyprus prior to its circulation to prospective investors.

In order to approve the scheme, the Central Bank of Cyprus must be satisfied that:

- the directors, the promoters, the managers and the trustee of the scheme are competent, experienced and honest and

that the manager, the general partner and the trustee (as the case may be) act independently of one another

- the manager meets the necessary legal requirements and the Central Bank of Cyprus regulations
- the trustee (where applicable) meets the necessary legal requirements as per the legislation and the Central Bank regulations
- the general partner (where applicable) meets the requirements of the manager
- the name of the scheme is not undesirable and or misleading

Furthermore, the Central Bank of Cyprus must be satisfied that the constitutional documentation and the offering memorandum of the scheme contain the information prescribed by the bank and that they are in a form acceptable to the bank.

### **d. Fund manager**

It is possible, but not a requirement, to appoint a fund manager, approved by the Cyprus Securities and Exchange Commission, which will exclusively be managing the monies of the unit-holders (investors). The manager is required to have an established place of business in Cyprus.

## **5 What we can do**

Our firm can help in the creation and advice for ICIS structures and assist clients from the early phases at the application stage as well as with their on-going requirements. Our services can be summarised as follows:

- advice and application to the Central Bank of Cyprus, on behalf of the scheme, to obtain their initial approval



- assistance in drafting of offering memorandum, incorporation and legal documents
- offering of administrative services including nominees, office facilities, administration of affairs, accounting etc, to the scheme
- provision of audit services to the scheme

For further information on the topic and any related issues feel free to contact us at:

Office address: 6 Themistoclis Dervis Street  
Papyros Building  
4th floor, office 3  
CY 1066 Nicosia  
Cyprus

Mailing address: PO Box 20873  
CY 1664 Nicosia  
Cyprus

Tel: +357 22 447802  
Fax: +357 22 447802

E-mail: [info@meraclisherodotou.com](mailto:info@meraclisherodotou.com)

You can download our newsletters and publications by accessing our website

[www.meraclisherodotou.com](http://www.meraclisherodotou.com)