

UCITS & AIF MANAGEMENT COMPANY

CIT guide



“Portfolio Management: the service of management of portfolios of investments, including those owned by pension funds, in accordance with mandates given by investors on a discretionary and client- by-client basis, where such portfolios include one or more financial instruments”.

CORE SERVICES, p.4



PERMITTED ACTIVITIES

a. INVESTMENT MANAGEMENT of collective funds:

- Collective Portfolio Management **and** Risk Management

b. ADMINISTRATION OF FUNDS, which includes the following services:

- Legal and fund management accounting services
- Provision of information and service of the funds' unit-holders
- Customer inquiries of unit holders
- Valuation of the funds' portfolio and pricing of their units
- Taxation issues and tax returns of the funds and their units
- Regulatory compliance monitoring
- Maintenance of unit-holder register
- Distribution of profits of the fund
- Unit issue, redemption and repurchase
- Settlement of contractual obligations, including the dispatch of documents and certificates
- Record keeping

c. THE ADVERTISING OF THE FUNDS and the promotion of their units (marketing).

MIFID SERVICES (CIF SERVICES)

A fund management company may provide, in addition to the management of collective investment undertakings, one or more of the following services, under the condition that the provision of such services is indicated in its instruments of incorporation:

A. CORE SERVICES

- Portfolio Management: the service of management of portfolios of investments, including those owned by pension funds, in accordance with mandates given by investors on a discretionary and client- by-client basis, where such portfolios include one or more financial instruments,

B. NON-CORE SERVICES:

- Investment advice concerning one or more financial instruments,
- Safekeeping and administration in relation to units of undertakings for collective investment.

“The shares of the Management Company shall be registered and cannot be admitted to trading or traded on a regulated or other stock exchange market”.

IMPORTANT NOTES ON CAPITAL / OWN FUNDS, p.6

Costs**AT APPLICATION STAGE:**

- **MINIMUM CAPITAL / OWN FUNDS:**

- €125,000 (If only UCITS and AIF Fund Manager)

- €125,000 (If Fund manager with addition of MiFID services)

- **APPLICATION FEES TO CYSEC:**

- €2,000 (if only UCITS)

- €2,000 (for AIFM)

- €450 (for each MiFID license)

- €250 (for permission to provide services in other states)

- €1,800 (for UCITS umbrella fund)

- €1,800 (for AIF umbrella fund)

**THE ONGOING ANNUAL CONTRIBUTIONS
PAYABLE BY MANAGEMENT COMPANIES:**

- **UCITS MANAGERS**

- €4.500 (sole activity if UCITS management)

- **AIF MANAGERS**

- €4.500 (sole activity if AIF management)

- **UCITS + MIFID ANCILLARY**

- €9.000 (Investment Advice + Safekeeping)

- **MIFID CORE SERVICES**

- €5,000 (Portfolio Management + Reception and Transmission)

IMPORTANT NOTES ON CAPITAL/OWN FUNDS:

1. The shares of the Management Company shall be registered and cannot be admitted to trading or traded on a regulated or other stock exchange market.
2. When the value of the portfolios of the Management Company exceeds two hundred and fifty million Euros (250.000.000 €), the own funds of the Management Company, must be increased, by an amount which is equal to 0.02% of the amount by which the value of the portfolios of the Management Company exceeds two hundred and fifty million Euros (250.000.000 €), where the maximum limit for the increase of the own funds is the amount of ten million Euros (10.000.000€).
3. Irrespective of the requirements above, the own funds of the Management Company **must at no time be less than the amount equivalent to one quarter of its preceding year fixed overheads**, or, if the company has not completed a year's business, the amount shall be a quarter of the fixed overheads projected in its business plan, as this plan may have been adjusted following the advice of the Securities and Exchange Commission.

NOTE: In the event of a material change in the business of the Management Company since the preceding year, the requirement (of the minimum one quarter of preceding year's fixed overheads) is respectively adjusted by the company, following also any advice of the Securities and Exchange Commission.

PREVIOUS YEAR'S FIXED OVERHEAD	€ 150,000.00	€ 200,000.00
REQUIRED CAPITAL	€ 100,000.00	€ 133,333.33
NOTES	Within the limit, no need for extra capital	Needs to inject extra capital of €8,333.33 (133k -125k)

3. CySEC may allow a Management Company not to provide up to 50% of the additional amount of own funds referred to in paragraph 1 above, if it benefits from a guarantee of the same amount given by a credit institution operating within the territory of the Republic or other member state.
4. If a Management Company provides portfolio management and investment advice, **it must be a member** of the Investor Compensation Fund, and contribute part of its own funds deposited with the said fund like all other investment firms.

Minimum Operational Requirements

1. The Management Company possesses at least the initial capital as per the law
2. The Management Company has the right shareholders, is dully organized and staffed, and possesses the required financial means and technical infrastructure, in order to be in position to provide its services in accordance with the provisions of the Law, without jeopardizing the interests of the funds it manages and the rest collective investment undertakings it manages, or the interests of the clients to whom it provides its services.
3. Shareholders must be able to disclose, the name or company name of the persons or entities possessing qualifying holdings to the Management Company, the amount of such holdings and any other information enabling the Securities and Exchange Commission to assess these persons' suitability must be immediately communicated to the Commission. The Securities and Exchange Commission may demand additional information, which shall facilitate its assessment as regards the suitability of the shareholders of the Management Company, even of those who may not possess a qualifying holding; it is possible though, due to the share composition of the Management Company, to substantially influence the Company's decision making.
4. At least 2 Executive Directors. They must be of sufficient good repute and sufficiently experienced also in relation the type of funds managed by the company. Executive directors must communicate to CySEC their names, and of their successors to the office.

“...if the company has not completed a year's business, the amount shall be a quarter of the fixed overheads projected in its business plan, as this plan may have been adjusted following the advice of the Securities and Exchange Commission”.

IMPORTANT NOTES ON CAPITAL / OWN FUNDS, p.6

5. The registered office and the central administration of the Management Company are located within the territory of the Republic.

6. Organizational structure of the Management Company

7. The management company must have an internet page (compliant to directives)

8. A program of activity:

- Sound administrative and accounting procedures, control and safeguard arrangements for electronic data processing
- Proper management and risk management software
- adequate internal control mechanisms (Chinese walls between departments)
- conflicts of interest policy
- business continuity policy
- risk management policy
- operations manual
- compliance policy
- accounting policy
- safekeeping and administration policy
- client acceptance policy
- marketing policy
- complaints policy
- rules for personal transactions by its employees or for the holding or management of investments in financial instruments in order to invest in for its own account, and ensuring, at least, that in each transaction involving the funds/clients, it is possible to define its origin, the parties to it, its nature and the time and place at which it was effected, and that the assets of the funds/clients the Management Company manages, are invested according to the legal provisions in force and the fund rules or instruments of incorporation

The list is exhaustive and more provisions and policies may be required depending on the operational structure of the Management Company and the portfolios it manages.



FOR MIFID SERVICES

ALL OF THE ABOVE IN ADDITION TO THE FOLLOWING:

1. If the Management Company provides also the service of portfolio management, it is **not permitted** to invest all or part of the investors' portfolio in collective investment undertakings it manages, **unless the clients provide their prior consent in writing.**

NOTE ON CLOSE LINKS:

Where close links exist between the Management Company and other natural or legal persons, CySEC shall grant the authorization only if those close links do not prevent the effective exercise of its supervision. CySEC does not grant the authorization if the law, regulations or administrative provisions of a third country governing one or more natural or legal persons, with whom the Management Company retains close links, prevent or hinder the effective exercise of its supervisory duties. CySEC requires from the Management Companies to provide it with any information it considers necessary or appropriate so as to monitor compliance with its conditions on a continuous basis.

TIMEFRAME

CySEC shall inform the applicant for a Management Company's operation license, whether such authorization has been refused or granted, within six months following the submission of a full application. In the case the operation license is refused reasons shall be given by CySEC.

If the Management Company **does not make use of the license** within twelve months since the granting of the license was notified to it, or expressly resigns from it, or ceases to carry out the activity covered by the license for a **time period longer than six (6) months**, then CySEC will revoke its license.

If a Management Company **applies for a fund** to be hosted under its umbrella, the regulator shall answer its application results **within two months** from the date of submission.

Once a fund receives its license, **within six months** it must invest its assets as per the law, failing to do so will be deemed violation of the law.

A Management Company which has been authorized in the Republic and wishes to pursue, for the first time, activities for which it has been authorized, within the territory of another member state, under the freedom to provide services shall notify CySEC accordingly.

“At least 2 Executive Directors. They must be of sufficient good repute and sufficiently experienced also in relation the type of funds managed by the company. Executive directors must communicate to CySEC their names, and of their successors to the office”.

MINIMUM OPERATIONAL REQUIREMENTS, p.7

Where close links exist between the Management Company and other natural or legal persons, CySEC shall grant the authorization only if those close links do not prevent the effective exercise of its supervision”.

NOTE ON CLOSE LINKS, p.9

CySEC will respond **within one month** with any notes on capital requirements or investor compensation funds requirement of the other member state. Upon receipt of all information, the company can freely provide services in the member state. A licensed Fund Manager can set up funds in other member states assuming CySEC is notified and it complies and abides by the rules and special provisions of the host member state.

A fund registered through a Management Company licensed in Cyprus can freely market its units in any EU member state or a signatory partner of ESMA as per Chapter XI of the following directive (pages 73, 74, 75): http://www.esma.europa.eu/system/files/L_302_32.pdf

TAXATION

Funds established and operating under the provisions of the Law and persons (natural and legal) acquiring units of the said funds are subject to the taxation provisions of the Income Tax Laws and the Special Contribution for the Defence of the Republic Laws.

The establishment of a UCITS or an AIF and the subscription, redemption, repurchase or transfers of its units are exempt from the stamp duty.

ONGOING OBLIGATIONS

The Management Company shall submit to CySEC, per financial year, an audited annual report as well as semi-annual and quarterly reports which may not be audited. The annual report shall also contain the detailed financial statements of the Management Company, as these are issued according to the International Accounting Standards, as these Standards are adopted by the European Union, and according to the requirements of the Companies Law, and is accompanied by signed copy of the auditor's report.

The Management Company, for each of the Funds that it manages, draws up, submits to the Commission and makes available to the investors in all selling points of units the following:

- A prospectus;
- An annual report for each financial year; and
- A half-yearly report covering the first six months of the financial year;
- Summarized statement of the assets and expenses at the end of the first, second and third management quarter; and
- Summarized statement of the assets and expenses at the end of the last quarter of the financial year; which includes a profit and loss account and the distribution of profits for the whole financial year

NOTES: All the reports must be in the official language of the Republic or in English (CySEC to be consulted if to be marketed in other countries).

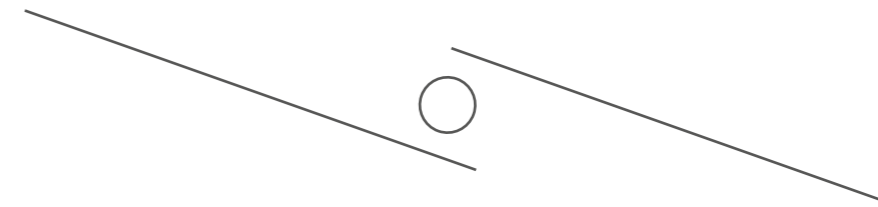
With the exception of the publications that shall be made according to the Law and which encumber the UCITS, any other publication on behalf of the UCITS encumbers the Management Company.

TIMEFRAME

- Four months, for the annual report,
- Two months, for the semi-annual report and
- One month for the quarterly report,


Following the end of the period, to which they refer.

CySEC is entitled to define, by Directive, the form of the above reports and the way the details they contain should be presented.



LIABILITY

The Management Company must operate in a fair and lawful way when carrying out its business activity, showing due care and acting always and exclusively in line with the interests of the funds/clients and the rest undertakings for collective investment it manages, as well as the interests of the unit-holders, taking, at the same time, into consideration the safeguarding of the smooth operation and integrity of the market.



“Funds established and operating under the provisions of the Law and persons (natural and legal) acquiring units of the said funds are subject to the taxation provisions of the Income Tax Laws and the Special Contribution for the Defence of the Republic Laws”.

TAXATION, p.12

IMPORTANT: Management Company is liable to the unit holders of the funds it manages, and for any negligence it may show in the way it manages the funds and clients money. Contractual limitation of the above liability is prohibited by law. Any limitation to the above through contracts or articles of incorporation is deemed void.

When a fund is under management, it is prohibited to accept the amount due for the acquisition of the units to a person that is part of the units' marketing network unless they are credit institutions or regulated entities.

*This document is for informational purposes, for exact provisions of the law, please refer to the exact legislation on UCITS and AIF Management companies.
[http://www.cysec.gov.cy/Downloads/LawsRegulations/N78\(I\)2012_EN.pdf](http://www.cysec.gov.cy/Downloads/LawsRegulations/N78(I)2012_EN.pdf)
<http://www.cysec.gov.cy/Downloads/LawsRegulations/The%20Law%20on%20Alternative%20Investment%20Fund%20Managers.pdf> (AIFMD Law is expected to be revised within the next months, with minor additions to be added, such as Retail AIFs).*

realsubstance.com.cy

REALSUBSTANCE
FIDUCIARY SERVICES

25th March Ave & K. Matsi 18
2408 Nicosia, Cyprus

E. info@realsubstance.com.cy
T. +357 22 28 34 30