

Andreas Yiasemides, President of the Cyprus Investment Funds Association (CIFA), describes the characteristics of Cyprus-regulated funds and explains the importance of the UBO Register in boosting the country's reputation. He also talks about ESG investments and potential new markets that can make Cyprus a global player in the fund management industry.

By Adonis Adoni



# MOMENTUM UNINTERRUPTED

**C**an you give us a rundown of the characteristics of funds that operate in Cyprus?

Cyprus is continuously strengthening its position in the EU as a fund jurisdiction. Cyprus' investment funds fall into two categories: Undertakings for the Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs). As far as UCITS are concerned, Cyprus has fully aligned its legal framework with European standards and has thus cultivated a breeding ground for foreign UCITS to be widely marketed in Cyprus. When it comes to AIFs, Cyprus offers three main types under its legislative framework, those being: 1) Alternative Investment Funds (AIFs) with unlimited number of persons, a type of fund which is subject to an increased level of supervision, can be addressed to the wider public and is subject to investment diversification rules; 2) AIFs with limited number of persons (AIFLNP), whereby a maximum limit of unit-holders not exceeding fifty natural persons applies. AIFLNPs are more suitable for a small group of investors and have no investment restrictions, no specific investment diversification rules and are generally subject to a lighter regime compared to AIFs; 3) Registered AIFs (RAIFs) which do not require authorisation by CySEC in order to commence operations and therefore offer simple and swift access to the market. Cyprus recently activated the Ultimate

**Beneficial Owner (UBO) Register regime. How important is the Register in terms of compliance with EU Directives, as well as with bringing greater transparency and increasing public confidence in the sector?**

The UBO Register was, indeed, recently established in Cyprus, indicating the country's strong commitment to provide full transparency and alignment with EU requirements with respect to combatting money-laundering and terrorist financing. Therefore, the development is deemed to be of utmost importance to boosting Cyprus' reputation in the EU, as well as globally as a country with high standards of AML compliance, and efforts to attract major market players wishing to invest securely and avoid potential legal threats and risks to their investments, making the country all the more competitive. Furthermore, the 5<sup>th</sup> AMLD, which is transposed into national law in Cyprus, requires that such Registers, including some non-personal data of the UBOs encompassed within, be publicly available to every person having a legitimate interest. In light of the above and given how decidedly essential the Register is for the local industry, CIFA recently organised a dedicated workshop with the Minister of Energy, Commerce & Industry, Natasa Pilides, as the keynote speaker. At the workshop, CIFA members and other delegates had the opportunity to learn how the Register works. Even though the importance of the Register for transparency purposes cannot be understated, we stress the need to be extremely careful when handling this sort of information

as it contains sensitive and confidential data. Any unlawful breach would harm the country's reputation as a professional services centre and a jurisdiction of choice for foreign legal entities.

**According to the latest data released by CySEC, assets under management of collective investments (UCIs) reached a historic high of €9.8 billion in Q1 2021, marking a significant 14% quarterly increase. Given that this was recorded during the COVID-19 pandemic, how do you explain it, and can we expect an even more significant growth rate as things gradually return to normal?**

The global economy is experiencing major turbulence due to the pandemic, which has forced a restructuring. Nevertheless, especially in the last couple of months, capital markets have not only shown signs of resilience but have also experienced a growth momentum. At the same time, collective investments are increasingly becoming a popular choice among investors who seek to diversify their portfolio, take advantage of professional management and benefit from attractive returns. Despite the uncertainty as a result of the pandemic, we are optimistic that the increase in the inflow of Funds and Fund Managers to Cyprus will continue at an even higher rate once the dust settles and we see a return to normality.

**On the same topic, the data also showed that out of the 166 UCIs in Cyprus, 123 were invested domestically, which amounted to €2.2 billion. Can you give**



**us a more detailed picture of where these investments were made?**

It is with great satisfaction that we see Investment Funds choosing to invest in the real economy of Cyprus and become an alternative financing source for various projects. Based on data released by CySEC, 54% of the investments made in Cyprus were in private equity, with 14% made in real estate. Other sectors that have attracted noticeable investments are those of energy – including investments in sustainability – shipping, education, health and fintech.

**ESG factors are now becoming essential components of investment decisions made by fund managers across the world. However, the number of obvious ESG-based investments in Cyprus remains relatively low. What kind of lessons can we draw from established ESG hubs like Luxembourg to become an attractive proposition for these types of funds?**

Indeed, ESG has become a critical factor in the decision-making process for investors, since it is no longer just a matter of social responsibility or philanthropy; it has become a pillar of financial viability. It is also true that we have a lot to learn from Luxembourg, the most well-known fund jurisdiction in Europe. In its ongoing commitment to drive growth, Luxembourg follows the current industry trend and global shift towards sustainable finance, with its Stock Exchange (LuxSE) recently having established a data hub to foster such an ambitious agenda. The

LGX DataHub aims at addressing the complex data challenge that asset managers and investors deal with when structuring ESG strategies and reporting on their sustainable investments. Cyprus could follow Luxembourg's example in the country's attempt to establish a leading position in the funds industry and keep pace with the industry's demands for sustainable financial products. To this end, it is noteworthy that, in Cyprus, both CIFA and CySEC already devote a great deal of attention to sustainability and sustainable finance. In fact, during a recent CIFA digital workshop on the same topic, CySEC Vice-Chairman George Theodorides highlighted that developments are moving in the right direction despite the low percentage of ESG investments in Cyprus. This is something we observe happening in Europe as well; at the same workshop, Elena Philipova, Global Head of ESG at Refinitiv, noted that even though ESG matters have climbed up the list of investor priorities, the amount of funds funnelled toward sustainable investments in Europe remains relatively low.

**CIFA has set a medium-term target to increase the volume of assets under management in Cyprus to €25 billion by 2025. What steps need to be taken to make this goal achievable?**

Cyprus is on its way to enhancing its reputation as an attractive, transparent and favourable EU jurisdiction and establishing a transparent and efficient taxation regime, also providing incentives for the relocation of funds and fund managers. With CIFA's coordinated and well-planned efforts, the Cyprus funds industry is already extending its efforts in more prominent and wealthy countries, such as India, acquiring knowledge on their markets by contacting local service providers and organising special trips, events, bilateral high-level meetings and conferences to achieve major collaborations. Furthermore, more legislative updates are expected to come into force soon, reinforcing the already well-

rounded framework governing funds in Cyprus. More specifically, a new piece of legislation concerning the supervision of fund administration services is expected to be enforced in the near future. The law is expected to set high standards within the fund administration profession and provide a layer of comfort to fund managers and investors alike. Finally, amendments to existing tax legislation are expected to come into effect soon, providing additional incentives for the establishment of funds in Cyprus, such as the possibility of a fund to choose NAV-based taxation for its investors. I believe we are already accomplishing these goals to a great degree and, if we stay on the same path, I'm confident that we will complete our mission to strengthen the position of Cyprus as a jurisdiction of choice for investment funds.

**Cyprus Funds have recently become eligible for Category I in the Indian market. What does this development signal for the local fund industry and what other markets can we expect to see within reach of Cyprus-regulated funds?**

This development signals new opportunities for the fund industry in Cyprus since the up-and-coming Indian market has huge prospects. The acceptance of Cyprus funds allows us to step up our efforts to attract investors from India and we are already developing an action plan to this end. The Cyprus funds industry is already planning on expanding to other jurisdictions, which are considered great investor pools, either due to the demands of their markets and the scale of their economies or to what Cyprus has to offer specifically to those countries. For instance, Greece is a country with which Cyprus has always had tight bonds and close proximity, which makes it a potential target. The same applies to Israel, which is also eligible as a market since Cyprus would be an optimal option for acquiring access to EU passporting rules. Last but not least, the UK (due to Brexit) and the USA are also considered to be priority markets for us.

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