

PRESS RELEASE

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CySEC issues Directives for the establishment and operations of Mini Managers

Nicosia – The Cyprus Securities and Exchange Commission (CySEC) has issued two new Directives relating to the Sub-threshold Alternative Investment Fund Manager Law of 2020 – L.81(I)/2020 (the “Law”). The new Directives give guidance, on the establishment and operations of Alternative Investment Fund Managers (AIFM) that can exclusively manage alternative investment funds (‘AIFs’), within the meaning and below the ‘*de minimis*’ thresholds of European Directive 2011/61/EU (‘AIFMD’) respectively.

The Law, which came into effect on 3 July 2020, is a national initiative that introduced a new regulatory category of the so-called ‘*Mini-Managers*’. Given the low systemic risk posed by the size of the assets managed by Mini-Managers, and the need for them to grow in order to finance the real economy, the new Law removes undue regulatory burden whilst introducing new safeguards that uphold best practice standards of investor protection. The Law also includes provisions that apply to Cypriot Investment Firms (‘CIFs’) when managing AIFs as well as to other EU entities that are subject to a ‘*Mini-Manager*’-like regime in their home Member State (‘MS’) and intend to manage AIFs in Cyprus.

The regime introduced by the Law and elaborated by means through the CySEC Directives is risk proportionate. The key safeguards introduced by the Law and the relevant CySEC Directives issued under its implementation, include the following:

- The head and registered office of a CySEC-authorized ‘*Mini-Manager*’¹, i.e. the legal and effective seat of its operations, will have to be in Cyprus. This renders the entity and its officers accessible at any time by CySEC for supervision, investigation and audit purposes. The manager is always ultimately liable, in case of delegation, whereas existing marketing rules are applicable in the AIFs under the management of ‘*Mini-Managers*’;
- During the licensing process of a CySEC-authorized ‘*Mini-Manager*’, a detailed scrutiny of its ownership structure, of the proposed management and of the intended operations takes place, whereas minimum requirements as to the number of officers’ and Board of Directors (“BOD”) members are also provided for. In addition, the scrutiny during the licensing process or in case of subsequent appointment is extended to the natural persons acting as Internal Auditor, Compliance Officer and Risk Manager;
- A minimum initial capital requirement (€50.000) applies, whereas CySEC-authorized *Mini-Managers* that are subject to the higher AIFMD threshold (€500.000.000 of assets

¹ The Law also makes reference to entities from other EU MS having a similar regulatory status to that of a CySEC-authorized ‘*Mini-Manager*’, whereas CIFs providing management of AIFs are also considered as Mini-Managers regarding the provisions of the Law applicable to them.

under management (AuM) without leverage and a 5-year Lock-Up) are additionally subject to regulatory reserves (own funds) requirements where their AuM exceed €125m. Namely this is an additional equity requirement of 0.02% of the amount that exceeds the said €125m;

- A civil liability regime for every negligence of the '*Mini-Manager*' is provided for, which can be directly invoked by affected investors without having to depend on the AIF in question to take legal action;
- Where justified from a proportionality perspective, a hierarchical and functional separation between risk management and operating units within the organization of a CySEC-authorized '*Mini-Manager*' applies;
- For CIFs providing fund management, the Board of Directors and senior management will have to be '*fit and proper*' from a fund management perspective. Their own fund requirements must also be included when calculating the AIFs' AuM.
- From an anti-money laundering (AML) perspective, CySEC-authorized Mini-Managers will fall under CySEC's AML supervision as per section 59(1)(b)(ii) of the AML Law.
- CIFs that have already been approved by CySEC to provide management operations to AIFs are subject to transitional provisions and must adapt their operations to comply with the provisions of the Law; and update CySEC accordingly by submitting a certification by its Board of Directors Members, within nine months from the date that the Law came into effect (i.e. by 03 April 2021).

Interested parties can find more information about CySEC's Directives as well as the Law on CySEC's website.

In a statement, CySEC Chairwoman Demetra Kalogerou said: "The Law will provide the conditions and opportunity for CIFs to turn into managers and manage small investment funds, a crucial next step in fostering the growing funds industry in Cyprus. The Law reinforces the institutional framework for developing an AIF market in Cyprus, while at the same time ensuring that investors and their interests are protected."

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