



CYPRUS STOCK EXCHANGE

Mutual Funds



General

For many decades Mutual Funds are regarded as one of the most beneficial types of investment. They comprise either Collective Investments Schemes or Undertakings for Collective Investments (UCIs) and are based on the idea that many investors having the same investment philosophy and common objectives, aggregate their funds, instead of investing solely, in order to create a big pooled fund which is divided into units of equal value.

That “common” property of a Mutual Fund is assigned for management to a professional Fund Manager (Management Company), that has the proper knowhow and adequate expertise on investments. The Fund Manager invests the whole fund in various selected securities (e.g. shares, bonds, deposits, money market instruments) in Cyprus or abroad, according to a specific investment policy of the Mutual Fund, aiming at the higher possible return and the lower possible investment risk. The property of Mutual Fund is kept under safe custody by a credit institution which acts as a Custodian.

In Cyprus, the competent regulatory and supervisory authority for the operation of UCITS is the Cyprus Securities and Exchange Commission (CySEC), while the Central Bank of Cyprus supervises the International Collective Investments Schemes. The existing legal and regulatory regime, as well as the recent tax amendments in Cyprus, make the establishment and investment on a Mutual Fund more attractive.

Cyprus seems to be a preferable destination for investment activities, since over and above its reliable regulatory and tax regime, it provides remarkable support services (legal, auditing, consulting) and has highly qualified human resources. Cyprus aims at being recognised as one of the most remarkable regional financial centres and, also the financial sector to be established as the most dynamic lever for the development of the Cyprus economy.

Listing of Mutual Funds on CSE

Mutual Funds can be listed on CSE under the Cyprus Stock Exchange Laws (Section X, Chapter F). The following types of Mutual Funds can be listed in the Mutual Funds Market of CSE :

1. Open-ended UCITS, according to the Open-Ended Undertakings for Collective Investments in Transferable Securities (UCITS) and other Related Issues Law of 2004 (L. 200(I)/2004). Such funds, having the form of a common contractual fund or an Investment Company of Variable Capital, can be local or foreign, harmonized or not with the European Directive 85/611/EEC, and sell their units in Cyprus,
2. International Unit Trust Schemes, according to the International Collective Investment Schemes Law 49(I)/1999,
3. International Variable Capital Companies, according to the International Collective Schemes Law 49(I)/1999.



A. Listing Requirements

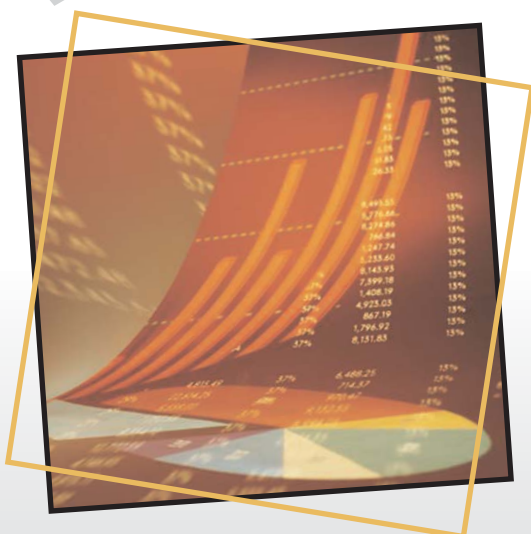
- Publication of Informative Paper,
- Appointment of a Custodian (must be a financial institution) for UCITS, or a Trustee for an International Collective Investment Scheme,
- Appointment of a Fund Manager,
- Prospectus circulation permission granted by CySEC for UCITS, or by the Central Bank of Cyprus in regard to an International Collective Investment Scheme,
- Licence of establishment and distribution of UCITS in Cyprus granted by CySEC, or Certificate of Recognition of an International Collective Investment Scheme, granted by the Central Bank of Cyprus.

B. Continuous Obligations

Publication of:

- Net Asset Value (NAV) and official bid and ask quoted price of units, on a daily basis,
- Any decision for suspension of units distribution or redemption,
- Any decision for dissolution/liquidation, merger or cancellation of a Mutual Fund,
- Any new substantial information regarding the Mutual Fund and important changes in the content of the Informative Paper,
- Keep Special Depository for unit holders (type of transaction, number of units, selling price).

The transactions on units are NOT executed through the CSE electronic system of transactions, called OASIS.





Advantages

Investment in Mutual Funds entails important benefits which makes it one of the most popular investment choices for the public:

Low investment risk

In Mutual Funds, the money of investors are placed in various and different kind of securities. As a result the variances of such a diversified portfolio are reduced and its investment risk is minimized. Also, Mutual Funds are being internationally regarded as the most “democratic” constitution in the field of investments, because they achieve the same return for all the investors, not depending on the level of the capital invested.

Professional Management

The valuation of the various complicated investment alternatives is indeed a difficult deal for the average investor. The Fund Managers are sufficiently experienced and have an eligible infrastructure in order to be able to distinct any investment opportunities either in Cyprus or in the international markets of capital. Moreover, the activities of the Fund Managers are prudently supervised by the CySEC who previously gave them an operation licence.

Big power of negotiations

No matter of the level of the capital being invested by each investor in a Mutual Fund, such a fund is treated as pool fund, having the power of its total assets and can benefit more favourable terms on buying or selling financial assets and any other securities in the money market or capital market, in contrast with the sole investors.

Liquidity

Liquidity is one of the most important parameters for any type of investment. Liquidity means that the investors have their capital on their disposal any time that is needed. Mutual Funds offer the ability to any investor in order to buy or sell part or the whole of its investment in a short period of time.

Transparency and easy watch on the investment

Investors have the opportunity to watch easily the course of their investment, without necessarily having specialized knowledge, since the relevant regulations provide for a series of informative papers to be available for investors, as well as the net asset value of the Mutual Fund is daily disseminated through the economic press.

Robust Legislative Framework

To safeguard and promote the investors' interests, Mutual Funds are supervised, licenced and monitored by either the Open-Ended Undertakings for Collective Investments in Transferable Securities (UCITS) and other Related Issues Law of 2004 (L. 200(I)/2004) or the International Collective Investments Schemes Law 49(I)/1999. The aforementioned Laws define specific obligations for the Management Companies and impose specific constraints concerning the way Mutual Funds position the funds of investors. Also, the Custodian or Trustee safeguards the assets of a Mutual Fund and the secured settlement of transactions.

Tax benefits/ incentives

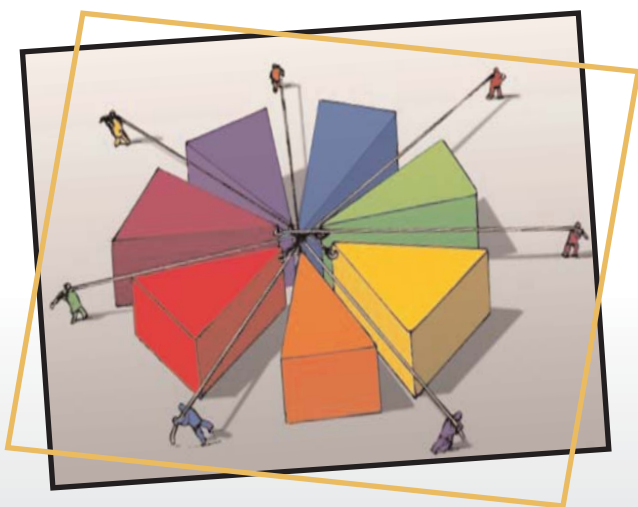
- The Cyprus Income Tax Law and the Special Contribution for Defence Law have been recently amended in order to facilitate the setting up and operation of Mutual Funds in Cyprus, as well as simplify the tax regime in respect of taxation of interest and of dividends received from abroad. In particular,
 - The amendments of the Cyprus Income Tax Law 118(I)/2002, which came into effect as of the tax year 2009:
 - Abolish the existing rules on taxation of interest in order to make clear that interest income derived by a collective investment scheme is considered to be "active" interest income and be taxed only at 10% corporate income tax. That interest income derived by a person will be exempt from income tax,
 - Make clear that proceeds derived on the disposal of a unit in a collective investment scheme shall be exempt from tax under s. 8(22) of the Cyprus Income Tax Law, which exempts profits derived on the disposal of securities from Corporate Income Tax in Cyprus
 - The amendments of the Special Contribution for Defence Law, which came into effect as of the tax year 2009:
 - Make clear that interest derived by a collective investment scheme is not considered to be interest and therefore is not subject to Defence tax,
 - Abolish the minimum participation requirement of 1% when it relates to dividends received from abroad by

Cyprus tax resident companies (including collective investment schemes). Such dividends are exempt from Defence tax under some conditions,

- Define that a collective investment scheme will be imposed a 3% taxation (instead of 15%) in the event where the scheme fails to distribute at least 70% of its accounting profits within a period of two years from the tax year to which the profits relate, to the extent that the collective investment scheme has Cyprus tax resident unit holders,
 - Provide that on liquidation of a collective investment scheme, the proceeds will be subject to tax under the Special Contribution for Defence Law at the rate of 3% (instead of 15%), to the extent that the collective investment scheme has Cyprus tax resident unit holders, while such proceeds will be exempt from the Defence tax in the case where the collective investment scheme's unit holders are not Cyprus tax residents.
- Moreover, it is noted that during 2009 CSE has being recognised by the UK Organisation of Revenue and Customs, under the Article 1005(3)(a) and (3)(b) of the Income Tax Act 2007. According to that Act, the companies registered in the UK and invest in any Recognized Stock Exchange have tax allowances.

Charges / Fees

The fees concerning Mutual Funds are included in Annex VII of Appendix 17 as stated by the CSE Regulatory Administrative Act 326/2009.





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