

# *Korpus Prava*

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LAW & TAX

Formation and administration of hedge funds



# Formation and administration of hedge funds

An offshore fund is a collective investment scheme, which offers eligible investors significant tax benefits compared to many high tax jurisdictions. An offshore fund is set up in offshore financial centers (OFC) and is usually managed from a low or zero tax jurisdiction. OFC's are countries that cater to the establishment and administration of hedge funds. Korpus Prava (Cyprus) provides services for creation and support of offshore investment funds.

## Top offshore and low tax jurisdictions

- Cayman Islands
- British Virgin Islands
- Cyprus
- Channel Islands (Jersey)
- Bermudas
- Malta
- Luxembourg (within the framework of the existing tax exemptions and for the purpose of listing)
- Singapore/Hong Kong S.A.R. (for managers physically located in these countries)
- Ireland (within the framework of listing and administration)

## Types of setting up funds

- Portfolio investment funds, including hedge funds
- Private equity funds, including venture capital
- Real estate funds

## The main tasks resolved

- Income from assets of onshore jurisdiction in tax-free zone
- Transactions on behalf of a fund without disclosure of beneficiaries
- Preservation of property
- Redistribution of income
- Attraction of foreign investors by additional guarantees
- Reduction of administrative burdens — output to more liberal legal framework for implementation of professional activity, avoiding licensing requirements and regulations

Korpus Prava provides personalized solutions in all aspects of the area of formation and administration of Hedge Funds. Our accumulated experience allows to plan, create and manage international projects using the very latest technologies.

## Services of creation of structures include

- Creation and development of structure
- Recommendations on the choice of jurisdiction and legal consultation
- Administration of the fund (on customer's request)
- Creation and preparation of a package of documents in accordance with the objectives of the project
- Regular consultations with lawyers, Fund Administrator
- Search and auditor's recommendations, assisting in the drafting of letters to CIMA to obtain the license for funds
- Management of investment policy
- Preparing for tax inspection
- Search and selection of a nominee director, with a full spectrum of nominee services
- The organizing of legal persons and preparation of necessary documents
- Opening of a bank account
- Due diligence at all stages of the project
- Registration on stock exchanges (on customer's request)
- Receiving codes of securities: ISIN, SEDOL, Bloomberg (on customer's request)
- Continuous personal management of each project
- Control of starting and working of the structure

## Structure maintenance services include

- Contractual work on committing transactions by the funds
- Preparation of necessary documents (certificates, certified copies of powers of attorney, etc.)
- Annual servicing of legal entities of the structure, extension of licenses, registrations, stock exchange listings, etc.
- The opening of additional bank accounts, interaction with bank officers

## Caymanian Hedge Fund

The basic elements of the structure of the fund are as follows:

### Fund

Recorded as an exempt company with the license of CIMA for the investment fund. There are two types of shares: founder shares and ordinary shares (these could be divided into several classes with various commissions and types of investors). Minimum investment of \$100,000 to simplify licensing.

### Management company

Formally manages the assets that can be used to separate commissions for the management of the assets of the Fund. It does not require a license in the Cayman Islands if it is administered by native groups i.e., the shareholders and the holders of founder shares are related parties). Possible requirement of non-affiliation with the broker/agent/counterparty, in line with the Russian legislation.

### Agent

A Russian person who practically manages assets and formally provides agent services. When operating with securities for legal entities, the agent must have a license for brokering activities.

### Consultant

A person carrying out the preparing of investment recommendations which are formalized by the Management Company (no licensing is required).

### Administrator

A licensed organization implementing liaison between the Fund and the investors, fund accounting, calculation of cost of shares of the Fund, reassessing of property, checking clients and so on.

### Holding company

A subsidiary of the Fund in Cyprus allows us to optimize the taxation through the use of Double Taxation Agreements between Cyprus and Russia. This simplifies the realization of real estate.

### Intermediate company

This requires additional tax structuring.

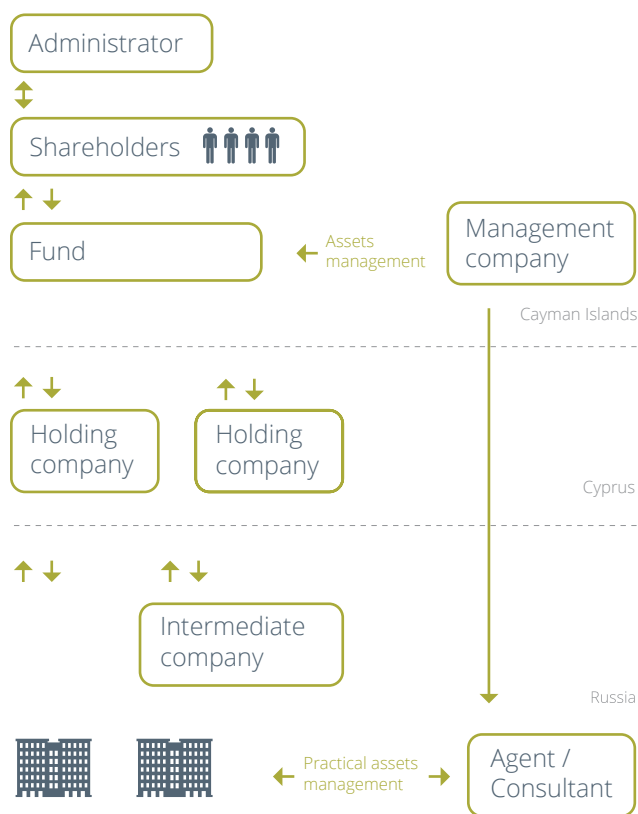
### Shareholders

Individuals and legal entities who are professional investors (defined on formal grounds — the ability to invest over \$100,000 and risk-taking Fund described in the Memorandum).

### Advantages of the proposed structure

- Transparency and compliance with international standards of organization (understandable for foreign partners)
- The participation interest in the share capital of the fund is minimal

## Cayman Islands fund structure



- The Fund and management company is located in the most appropriate jurisdiction (Cayman Islands), which minimizes the impact of taxes and regulation to choose investment strategy:
  - there is no tax for funds, investors and the management company; developed legislation on investment
  - the Fund is under control of the regulatory authority of the Cayman Islands (CIMA), but it is not limited in the choice of investment strategies
  - protection of the information about the investors
- The ability for rapid expansion

An Independent Fund Administrator protects investors, particularly in calculating cost of shares, payments from the Fund, etc.

- The assets of the Fund are mostly kept outside Russia, providing additional protection for investors
- Structuring operations through a subsidiary Foundation in Cyprus reduces the overall tax burden on the structure almost to zero (tax on rents only is paid) and provides a simple realization of real estate through the sale of the holding or staging company



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