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Fatca

Special Report



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Editor's Letter



Changing Requirements and Changing Methods

As the first year of the US Foreign Account Tax Compliance Act (Fatca) being in effect is almost complete, the rules for reporting still appear to be in flux, as are the ways firms are responding to Fatca compliance and setting out methods to address its rules on a regular basis.

In the Virtual Roundtable in this report, SIX Financial Information's Jacob Gertel says it will be interesting to see what experience is gained by going through the US Internal Revenue Service reporting process for Fatca for this year. State Street's George Sullivan points to the changing nature of guidance on reporting, and rules for transmitting Fatca reporting that are not finalized in all jurisdictions.

On top of that, the data needed for Fatca compliance is lower in quality than expected, as Deloitte & Touche's Jon Watts observes in the Q&A on page 14 of this report. That is due to a struggle to rationalize and normalize client data dispersed across legacy systems, he says, and compounded by inconsistent data capture requirements.

While firms are trying to change business strategies and processes for data organization and operations, according to SIX's Gertel, they may be finding they have opened a Pandora's Box of fragmented and mismanaged tax data collection and administration methods, as Watts asserts.

Yours sincerely,

A handwritten signature in black ink that reads "Michael Shashoua". The signature is fluid and cursive.

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FEATURES

8 Virtual Roundtable

Inside Reference Data gathers together leading data professionals to discuss industry preparedness for compliance with the US Foreign Account Tax Compliance Act (Fatca), the issues firms are having with reporting formats and methods, and the overall impact of the regulation on data operations

14 Q&A

Fatca reporting is manageable, but data gaps, quality issues and more upcoming deadlines remain challenging, says Jon Watts, director and head of banking and securities, Fatca, at Deloitte & Touche



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NEWS

- 6 Fatca GIIN Numbers Experiencing Churn
- 6 US IRS Launches Data Exchange Service for Fatca Reporting
- 7 'Gatca' Information Exchanges Agreement Signed
- 7 News Download



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Fatca GIIN Numbers Experiencing Churn

Adherence to the Foreign Account Tax Compliance Act (Fatca) may be even more complicated than first thought, as a result of churn in the database of GIINs (Global Intermediary Identification Numbers), says a product strategist at a tax information reporting provider.

The US Internal Revenue Service saw a 340 percent increase in GIINs being invalidated from September through late January, said Jeffrey Cronin, vice president of product strategy at Convey, a Minnetonka, Minnesota-based company.

“A big challenge is if you don’t have a process to track whether or not the GIINs you’re using are invalid, or were once valid but no longer are,” he says. “You could verify that the new financial institution is participating and operate business-as-usual with them. Then down the road they will simply stop being available on the GIIN list. You won’t be notified that happened. They will just drop off without any notification.”

Michael Shashoua

US IRS Launches Data Exchange Service for Fatca Reporting

The US Internal Revenue Service (IRS) has launched the International Data Exchange Service (IDES), a new online platform for reporting under the Foreign Account Tax Compliance Act (Fatca).

Fatca requires foreign financial institutions to report the information of certain clients who are US citizens. Firms had to register with the IRS by the last day of 2014, and this year their focus shifts to reporting the client data. The first reporting deadline was in March, followed by another this month, and a due diligence review at end-June.

IDES allows registered firms and national authorities that have signed

Intergovernmental Agreements (IGAs) with the IRS to securely report the relevant data.

Much of the complexity of reporting in the various versions of Fatca is mitigated for firms by the IGAs or standardization effort like the OECD’s Common Reporting Standard (CRS) framework. But that may not reduce the burden entirely, says London-based Mark Davies, general manager of Avox: “The CRS is critical, but even with that in place, we are going to witness very different approaches to implementation.”

Joanna Wright

'Gatca' Information Exchanges Agreement Signed

Last month, at a meeting in Berlin, 51 Organization for Economic Co-operation and Development and Group of 20 countries endorsed a standard for the automatic exchange of tax-related information across borders. The co-operative initiative is aimed at reducing tax evasion in countries from Singapore to France.

The countries signed a Multilateral Competent Authority Agreement that will see the first information exchanges launched by September 2017.

The Global Account Tax Compliance Act, or "Gatca," as the agreement has been called, was inspired by the US Foreign Account Tax Compliance Act (Fatca) and its reporting requirements. The regulations present challenges for market participants on data management and reporting obligations.

"Regarding related reporting requirements, it is clearer than ever the only viable way to get ready, in an economically sustainable way, for this game-changing deadline in 2017 is by addressing Fatca reporting requirements using a platform that can scale up flexibly, in reporting scope, volume and potential reporting format variations," says Thierry Haensenberger, Luxembourg-based senior vice president of business development, Europe, Middle East and Africa at service provider AxiomSL.

Joanna Wright

Linedata Adds Fatca Withholding Upgrade

Technology services provider Linedata has added tax withholding functionality to its Mshare transfer agency software to help users manage the requirements of the Foreign Account Tax Compliance Act (Fatca) and new anti-money laundering (AML) document-management capabilities.

Mshare already includes the ability to categorize clients according to Fatca requirements and flag those not compliant with the US anti-tax evasion measure.

BMO Capital Markets Chooses Fenergo for Fatca, Derivatives Compliance

BMO Capital Markets has chosen to use the onboarding system provided by Fenergo, a client lifecycle management software provider, to help it manage Fatca requirements and derivatives regulations.

The first phase of the project focused on Fatca compliance and went live on July 1, when the regulation first took effect. The second was launched in September and deals with derivatives regulations in the different jurisdictions in which BMO operates.

Fatca: Year One

Inside Reference Data gathers together leading data professionals to discuss industry preparedness for compliance with the US Foreign Account Tax Compliance Act (Fatca), the issues firms are having with reporting formats and methods, and the overall impact of the regulation on data operations

Overall, how well prepared is the industry for Fatca?

Jacob Gertel, senior product manager, legal and compliance, SIX Financial Information: Based on contact with our clients, the industry appears to be prepared for Fatca. Firms have completed their due-diligence requirements (such as identifying customers who are “US Persons”) and have amended their compliance, reporting, and monitoring processes.

They have also consolidated data sources within their own organizations and integrated new IT tools in order to mitigate Fatca requirements.

Firms are obligated to ensure Fatca compliance according to local laws and directives. For jurisdictions that signed Models 1 and 2 IGA (Intergovernmental Agreements) with the US, the first Fatca reporting begins in 2015, and firms are currently preparing themselves for this.

Some firms have automated their customers’ onboarding processes, together with an automated data gathering on instrument and legal entity (GIIN) levels, but there are still firms that have manual processes in these areas, resulting in higher compliance costs.

George Sullivan, executive vice president and global head of alternative investment solutions, State Street: Generally, the industry as a whole was prepared for Fatca; however, implementation and finding workable solutions to practical operational issues as they arise remains a major challenge.

Additionally, it has been difficult obtaining timely guidance from the US and local Fatca jurisdictions, and the multitude of classification types and exceptions makes the process confusing, even for well-versed professionals.

What issues do firms still have with the formats for reporting and filing under Fatca?

Gertel: Many of our customers worldwide rely on the reporting requirements of external companies specialized in the area of tax reporting (not only US Fatca). The tax reporting tools are fully compatible with the firm's core systems and are able to provide the required reporting by aggregating financial information data as well as customer data.

It will be interesting to see the experience gained in the filing of the IRS reporting in 2015.

Sullivan: The majority of issues around reporting center on the changing

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nature of the guidance on reporting. Most countries have decided to pursue a Model 1 IGA agreement with the US and will be responsible for collecting the required reporting; however, not all countries have been as proactive as they could be.

Additionally, the rules and require-

"Based on contact with our clients, the industry appears to be prepared for Fatca. Firms have completed their due-diligence requirements and have amended their compliance, reporting, and monitoring processes"

Jacob Gertel, SIX Financial Information

Virtual Roundtable



George Sullivan, State Street

ments for transmitting the reporting are not finalized in all jurisdictions, leading to increased confusion and delay.

Are there flaws in the Global Intermediary Identification Number (GIIN) system, and how should those be addressed?

Gertel: From the data vendor perspective, our biggest challenge lies in mapping the GIINs from the monthly IRS Foreign Financial Institutions (FFI) list to our database. The IRS

"The majority of issues around reporting center on the changing nature of the guidance on reporting. not all countries have been as proactive as they could be"

George Sullivan, State Street

GIIN list does not offer any common identifiers (such as the Legal Entity Identifier (LEI)) that will support us in ensuring an adequate mapping process, making the mapping process more challenging.

Mapping of the GIIN to our data would enable our customers to have an important identifier that can be used not only with Fatca, but also with other important identifiers, such as the LEI.

How has Fatca changed the way firms handle their data operations?

Gertel: The Fatca requirements forced firms to change not only their business strategy, but also many processes within their organizational and operational structures.

Many firms have already amended their internal processes (such as their client onboarding process), and have also updated their IT systems to ensure they meet data gathering and reporting requirements.

The revised procedures, IT systems, and reporting requirements can be later used for compliance with further regulations, such as the OECD's upcoming CRS (Common Reporting Standards).

As a data vendor, SIX is doing its best to provide its customers with the required data using existing data structures, which will ease data integration into the firms' systems.

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Virtual Roundtable

Sullivan: Fatca reporting requirements, along with others, have created the need to build information systems that flow into one another and also out to various government entities.

Even though firms are laying down the new pipes and plumbing necessary, the world has yet to implement a common reporting standard.

The result is that as governments change their reporting requirements, firms have to redirect those freshly laid pipes to make sure the information they're collecting is being directed to the right place in a timely and accurate way.

What are the most effective data governance and management methods for addressing Fatca?

Gertel: I believe the most effective data governance and management methods are those that implement Fatca while looking forward to the future.

The CRS directives are based on Fatca. Firms are advised to ensure all their processes and data are well-structured to meet compliance requirements.

Firms that have already put in place the appropriate due-diligence procedures, as well as the appropriate systems for customer, withholding, and reporting data, can implement each future requirement more easily and with less human and financial resources.

I believe firms should concentrate on their daily business and customers and, where possible, receive support from specialized vendors in the areas of financial data and reporting tools.

It is also very important to set up a comprehensive training program for everyone involved in compliance and regulation requirements in the firm's various departments and organizational units.

Sullivan: Fatca data can be tied into other data reporting standards and, if those processes are integrated effectively, they can reinforce one another.

Finding an outsourcing service provider that can help synchronize those efforts can create efficient and effective data governance and management standards for firms.

"I believe firms should concentrate on their daily business and customers and, where possible, receive support from specialized vendors in the areas of financial data and reporting tools"

Jacob Gertel, SIX Financial Information

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No Rest For Fatca Compliance

Fatca reporting is manageable, but data gaps, quality issues and more upcoming deadlines remain challenging, says

Jon Watts, director and head of banking and securities, Fatca, at Deloitte & Touche



*Jon Watts,
Deloitte & Touche*

What's your take on Fatca preparedness with the imminent impending deadlines?

The good news is that 2015 reporting should be manageable. However, financial institutions need to start focusing on longer-term deadlines: pre-existing entity account remediation (June 2016) and preparing for gross proceeds withholding (January 2017). There's no respite through 2017 and it may affect the quality of the data being collected, due to constrained resource time and shrinking budgets. We need to make sure to change the senior-executive perception that Fatca is "done"—it's not.

What impact has Fatca compliance had on data management?

It's opened the Pandora's Box on how fragmented and mismanaged client tax form collection, validation, digitization and storage have been. Institutions have been forced to review their tax form collection practices to address significant data gaps. Chapter 4 of Fatca in particu-

lar has spotlighted tax operation shortfalls, most of which begin with disjointed, manual and inconsistent tax form collection and processing. We have suggested to our clients that they evaluate a range of options—such as setting up enterprise-wide tax operations utilities, outsourcing, consolidation and simplification, and evaluating third-party providers.

What are the biggest challenges with the identifiers or data that have to be generated or used for Fatca compliance?

Source data used for Fatca has not been of the expected quality, requiring substantial review and cleansing. Firms are struggling with rationalizing and normalizing client static data dispersed across legacy systems that historically have been standalone with their own distinct data definitions. This is further compounded by the fact firms still have inconsistent data capture requirements across onboarding and account capture systems despite Fatca being live.

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