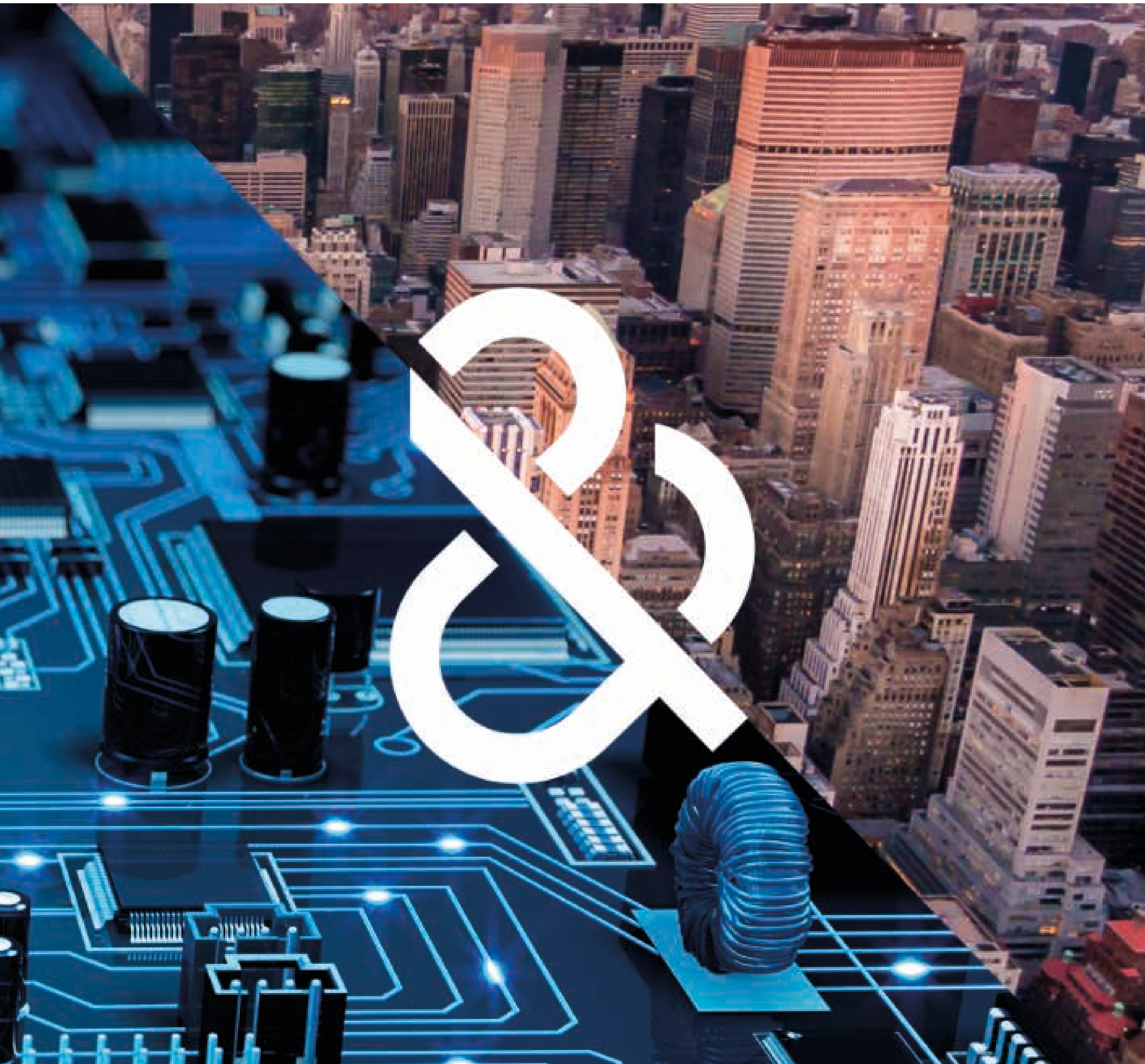
The FATCA Report

Ask, Analyse, and Measure



1. WHY FATCA COMPLIANCE IS RELEVANT TO FINANCIAL INSTITUTIONS NOW

The Foreign Account Tax Compliance Act (FATCA) is one of the most significant pieces of tax compliance legislation to affect financial institutions (FIs) in recent years. Enacted to help detect the non-US financial accounts of US taxpayers, it has wide-ranging implications for FIs around the world.

Fundamentally the law requires FIs to report on the US citizens among their account holders and the total asset value they hold.

While FATCA has been law in the US since 2010, international compliance has been complicated and deadlines have moved multiple times.

But we are now approaching a critical deadline for FIs.

In most jurisdictions 30th June 2016 was set as the deadline for compliance. FIs in the UK have been allowed slightly more time: the deadline for pre-existing account remediation in the UK is now 31st December 2016. At the very least, organisations must demonstrate some progress towards compliance by that date.

Until now, manual administration efforts have been time-consuming and costly. FIs have either allocated team members, hired dedicated staff or outsourced to solicit and process the FATCA account holder tax documentation. This has not proved to be an effective way to fully meet the deadline.

Fortunately there are alternative approaches that can be applied to achieve compliance by the end-of-year deadline. In this report we will explore some of the ways that FIs can do this.

It's important to act now – and not just in order to comply with FATCA itself.

On the horizon is an additional significant piece of regulation: the Common Reporting Standards (CRS). CRS provides an agreed way for countries to share information on residents' assets and incomes. So far more than 90 countries have signed up to CRS . The documentation process for FATCA will be valuable in setting the foundations for compliance with the CRS requirements in the years ahead.

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2. THE TAX COMPLIANCE CHALLENGE

So why exactly have FIs found it so challenging to comply with FATCA's requirements to date?

Based on conversations Dun & Bradstreet has had with many UK-based FIs over the past year, we've noticed a consistent theme.

Many of them have tried to handle the FATCA requirements through their traditional method of soliciting tax forms from account holders themselves.

But the complexity and detail of the FATCA documentation means this process isn't working as well as it traditionally has done. The breakdown in the process is causing problems and means many FIs are not coming close to meeting their obligations on documenting account holders.

There are several factors coming together to make this FATCA compliance so challenging.

1. Many customers who are asked to self-report don't have an awareness or understanding of precisely why they have to comply. This leads to many customers to ignoring the requests for information they receive.

2. FIs are sending requests to account holders where they may not have the appropriate contacts or information to get the tax form to the correct part of an organisation for response.

3. Even if they do review the request, many of them either aren't sure if the FATCA regulations apply to them or simply don't know what to do with the form. All of this results in a low response-rate: in Dun & Bradstreet's experience, if an FI is getting responses from 30-40% of the customers it contacts, it's doing well compared to its peers.

4. Compounding the problem is the fact that those customers who do self-report often struggle with the complex nature of the FATCA forms. From our experience, approximately 30-50% of self-reported forms received by FIs are filled out incorrectly or missing information, causing huge delays and complications. No wonder, then, that so many officers responsible for FATCA compliance in their organisation feel that too much information is required.

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All of these factors have substantial time and cost implications for FIs themselves. Organisations have estimated that it can cost between £50-100 to solicit and validate an account holder certification. Given that some FIs have over two million accounts, it's easy to see how responding to the FATCA requirements can quickly become an unmanageable burden.

Compliance officers have finite resources and cannot put all of their effort into FATCA alone. They are trying to meet the FATCA deadline while also handling the other day-to-day priorities across their business. Some of them have decided to recruit additional staff to handle the FATCA process, but the up-front recruitment and on-boarding costs can be prohibitive.

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3. FIVE STEPS TO TAX COMPLIANCE

Time is of the essence for financial institutions. Here are the five steps we recommend they follow to meet the FATCA deadline.

❶ DEVELOP A CLEAR PROJECT PLAN

The first steps sounds simple but it lays the foundation for everything else. With limited time, it's unlikely you'll be able to achieve absolutely everything you want to. You'll need to establish exactly what can realistically be done before the end of the year, in order to demonstrate significant progress towards compliance.

That starts with developing a clear plan, mapping out the next few months, prioritising tasks and working out exactly where you need support from third-parties and external advisors.

❷ SET A FIRM DEADLINE FOR RECEIPT OF SELF-CERTIFICATION

The likelihood is that you have asked customers to self-report initially. But as the deadline for compliance approaches, you will need to set a deadline of your own. Given the known issues with incomplete or inaccurate forms, you can't afford to allow customers to submit their own reports too late.

By giving them a timeframe for responding, you will provide a firm and much-needed imperative to encourage speedy replies. This will also enable you to get as many forms processed as possible within the available time, and draw a line under those that might not lead to a clear outcome.

❸ DECIDE WHETHER TO COMPLY JUST WITH FATCA OR OTHER LEGISLATION TOO

If you are further along in your FATCA response, you may wish to consider combining compliance with FATCA and the forthcoming CRS rules too. The downside to this approach is that it requires investment and planning now. But the upside is considerable.

By putting the processes in place to identify, collate and communicate customer information to the relevant authorities, you are setting yourself up for the future. You will have the opportunity to learn lessons and smooth out any problems before the much wider-ranging CRS requirements come into effect.

❹ UNDERSTAND HOW TO MONITOR CHANGES IN CUSTOMER CIRCUMSTANCES

One of the most complicated elements of the FATCA process (and CRS too) is staying on top of customer circumstances as they change. The scale of this challenge – covering virtually every account holder at your institution and reporting, ultimately, to dozens of different countries – means that it's impossible to rely on manual solutions alone. Instead, you will need to embrace digital analytics systems that can automatically provide updates on customers over time.

Digital solutions can efficiently bring together the publicly available and locally sourced data you need to answer any specific query, as well as ensuring it is consistent and time-stamped for audit purposes. Comprehensive digital systems, such as those provided by Dun & Bradstreet, are fast and accurate tools: identifying the right one for you will be a key step towards full compliance.

❺ CLARIFY YOUR REPORTING PROCESSES

You might need to be pragmatic about what you can achieve this year. Reaching full compliance by the end of 2016 might not be realistic, but you can still use what you have done as the building blocks for much stronger performance next year. That starts with establishing the priorities: where exactly can you get to, and what must you report by the end of this year?

Then you can identify opportunities to expand and strengthen your compliance in 2017.

4. HOW WE CAN HELP

FATCA poses a considerable challenge to tax and compliance departments. At Dun & Bradstreet we believe digital solutions are a vital part of the answer.

The D&B FATCA and CRS Classifier is our tool for responding to this compliance challenge. The Classifier utilises our existing database of 280M entities globally to manage the automatic classification of the majority of accounts.

This takes away the "heavy-lifting" that FIs themselves would otherwise have to handle. By vastly reducing the outreach FIs have to do, it allows them to focus their teams on the most significant cases, where human involvement is most essential.

FIs can add new accounts to the Classifier in just a few clicks through an intuitive user interface, and large volumes of existing "back book" files can be imported easily.

The system provides alerts to any changes to the classification of customers and users can search through records by types of classification, date range or client reference. The process is time and date-stamped, making auditing and reporting very straightforward. And because all of this information relates back to our global database, we can always provide a "source of truth" to your data.

The Classifier is being used by D&B customers right now and has achieved some impressive results.

Working with a tier 1 global investment bank, for example, we were able to provide remediation of pre-existing account due diligence for approximately 160,000 entities. Our tool delivered classifications for 130,000 of these, substantially reducing the outreach burden on the bank.

Compared to the traditional form collection process, D&B offers a solution that is much faster and more accurate. We provide cost and time savings and assist FIs to get things right.

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