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CRS Reporting: A Year On
Lessons Learned and A Look Ahead

WHITE PAPER

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As we conclude the first year of reporting under the OECD's Common Reporting Standard (CRS), the challenges for financial institutions are becoming clearer. With this clarity comes many lessons learned. From staying current on jurisdiction-specific legislation to tackling data management and security concerns, 2017 has provided a foundation from which we can understand the pain points and learn what financial institutions can do better to ensure global compliance.

The convergence of tax transparency and trends like big data, analytics and security bring profound implications for how financial institutions can harness technology to address compliance challenges — and how governments can use that same technology to their benefit as well.

In this white paper, we'll assess the landscape of CRS reporting by identifying specific pain points and lessons learned over the past year. We'll also discover how embracing technology and implementing best practices can ensure global compliance for financial institutions now and in the years ahead.

Pain Points and Lessons Learned

1. **Pain Point:** Realizing that CRS is not FATCA
   Lesson Learned: Do not assume that compliance for CRS will come easily if you're compliant with FATCA

   As many financial institutions learned this year, CRS is much more wide-reaching than FATCA, not only because it's a global standard versus a U.S. standard, but also because there is much more data to report on over time. Further complicating CRS compliance efforts is the fact that reportable data can vary by jurisdiction-specific tax regime — and that's challenging no matter how you slice it.

   At a high level, FATCA requires a financial institution to find U.S. persons, while CRS requires a much broader scope. Under CRS, the definition of a "reporting financial institution" is also different. So, even if your organization is not required to report on financial accounts under FATCA, it may be under CRS. Further, there is currently no de minimis limit under CRS, while FATCA only kicks in for individual accounts with balances exceeding $50,000. Ultimately, the result is significant differences in scale. There was also a much shorter preparation period for CRS verses FATCA, so many financial institutions found themselves in a better position when FATCA went into effect than they did for CRS reporting this year.

   In a recent survey, Thomson Reuters and Banking Technology assessed the challenges faced by financial institutions during the first year of CRS reporting obligations. For many financial institutions, their approach to filing for FATCA in previous years was a combination of manual and in-house solutions. For organizations with, let's say, 10 jurisdictions for FATCA, this approach works. However, with the significant increase in reportable information required under CRS, issues with data quality, complex schemas and ongoing maintenance emerge. Technology is also much more critical for CRS as financial institutions wrap their arms around XML, work to get their data to "fit in the box" and find efficient ways to aggregate it.

   Given the volume of data and countries for CRS reporting, it's not surprising that 50% of survey respondents saw a significant increase in resources allocated to FATCA and CRS this year. Financial institutions are increasingly finding that the risk of non-compliance far outweighs historical budgetary constraints — and they are investing the resources to prove it.

   One of those risks is reputation. According to the survey, 60% of respondents were concerned about their institutions' reputation being affected by CRS non-compliance, a 10% increase over last year. As negative news on tax evasion continues to take center stage, more financial institutions are investing in solutions that help ensure compliance proactively rather than reactively.

   With so much at stake, one thing became clear this year: CRS compliance does not come easily.

It will take time as governments and organizations alike continue to mature in their adoption and understanding of CRS — and implement processes and solutions that enable compliance.

2. **Pain Point:** Coping with ever-changing legislation
   Lesson Learned: Develop a regimented process for keeping up-to-date with evolving legislation and seamlessly integrate the requirements into your reporting processes

As countries enact legislation in accordance with CRS guidelines, it's critical for financial institutions to adopt a regimented process or subscribe to a comprehensive data source or solution for keeping up-to-date with regulation changes — and develop a seamless way to implement the requirements into their reporting process.

According to the survey by Thomson Reuters and Banking Technology, more than 50% of financial institutions who responded stated that keeping up with changing government regulations in multiple countries was a key challenge. Changes and guidance issued by many tax authorities at the last minute was evidence of why. In some cases, guidance was released only weeks before filing deadlines.

When asked about their main resources for keeping up-to-date with compliance changes CRS, almost one-third of respondents stated that their approach relied on an internal compliance team. This shows a clear preference for up-skilling internal resources and relying on the knowledge of local teams.

Surprisingly, almost one-fifth of respondents relied mainly on updates from tax authorities to keep up-to-date with compliance changes. Over the past year, information from tax authorities has been irregular, inaccurate and often conflicting from one authority to another. In some instances, there was a complete lack of guidance issued, even after filing deadlines.

With an ever-changing compliance landscape and global regulatory updates issued on almost a daily basis, keeping track of all the relevant requirements in all jurisdictions and integrating them into reporting processes requires the adoption of a robust process, to say the least. To cope, forward-thinking financial institutions are looking for a full set of local tax-specific regulations built in to a compliance solution for all the jurisdictions in which they operate. Because regulatory requirements for both documentation and reporting change frequently, tracking those changes, converting them into requirements and implementing the rule changes in time to ensure compliance reduces risk significantly — and saves a substantial amount of money and resources.

3. **Pain Point:** Identifying what is reportable under CRS and collecting missing information of reportable clients
   Lesson Learned: Incorporate a solution to determine reportable accounts into workflow processes

Many organizations are also finding issues in how to handle specific aspects of reportable data, from undocumented accounts to the treatment of controlling persons. Tax authority guidance on many of these areas was often unclear or even completely missing this year, making reporting decisions even harder.

According to the aforementioned survey, nearly 70% of respondents reported that collecting missing information of reportable clients was a key challenge. This is likely due to the increased volume of reportable individuals under CRS. The increased use in self-certifications could account for a large part of this issue, with customers often failing to complete or accurately fill in necessary information.

Unfortunately, many organizations are determining who is reportable manually via excel or by in-house solutions, resulting in missed or misinterpreted data and changes going unaudited. Even the use of custom-built solutions can present challenges as they require ongoing support and maintenance to ensure all jurisdictional changes are reflected year-on-year. This results in rising costs over time. With the next wave of CRS countries quickly approaching and the increasing amount of data needed, it is likely that financial institutions will move away from these manual processes to more automated ones, as we have seen with the maturity of FATCA reporting.

During a recent Thomson Reuters peer roundtable discussion, solutions to determine reportable accounts was discussed at length. While the process may not ever be completely automated, utilizing technology to collect documentation that satisfies various regimes, compares the status of regimes and maintains the status and rules for pre-existing or new regimes (and all the nuances in between) is crucial for compliance.

Given that the determination of reportable populations is an iterative process that has the potential to change up until the time of submission, automation is imperative to ensure that the correct population is reported. Further complicating the matter is the variability of reportable payments under CRS by tax regime. These challenges require the centralization of data to determine a reporting solution and the ability to query data. As more definitive guidance is released, the amount of interpretation that that occurs outside of processes and systems will likely decrease in the years ahead, making automation more of a reality.

4. **Pain Point:** Dealing with process, data and security challenges in legacy systems
   Lesson Learned: Standardize, centralize and protect data by implementing automation technologies and flexible, robust infrastructures

When it comes to collecting and managing data, financial institutions are facing serious challenges with sourcing, volume and accuracy. These issues derive from data existing in legacy systems and distinct data structures across multiple systems, businesses and jurisdictions. Such issues affect the accuracy of reporting, increase internal risks and affect the customer experience. Fixing these issues requires a large investment in robust data infrastructure, as well as a painstaking process of data clean-up, standardization and remediation.

That said, regulatory pressures demand stronger ownership and control over data and the maintenance of more detailed audit trails. Financial institutions must improve their data analytics capabilities, extract information from various sources, filter reportable data and perform calculations on account transactions — activities which were never required before.

When it comes to issues with data security, legacy IT systems of many financial institutions are increasingly becoming a risk factor. According to PwC's Global Economic Crime Survey 2016, cybercrime climbs to the second most reported economic crime, affecting 32% of organizations. Financial institutions are prime targets of such attacks, with risks including theft of financial or personally identifiable information, money laundering and financial fraud. Such risks only exacerbate with the increasing pressure from clients to provide more services through digital channels and from regulators to report electronically. Further, legacy IT systems are prone to vulnerabilities, especially when numerous mergers and acquisitions impact integration and infrastructure.

When it comes to data, more than 80% of respondents stated that it must be remediated at some level before they are able to report it. Couple that with the use of multiple and legacy systems, which require massive amounts of data manipulation, and it is clear why most survey participants stated that the quality level of the data in their organization is average or below average.

Amidst these challenges, forward-thinking institutions are investing in new automation technologies and flexible, robust data infrastructures, just as we have seen with the maturity of FATCA reporting. They are also standardizing and centralizing data throughout their organizations in data warehouses and employing new data management tools to facilitate large-scale data remediation and clean-up projects. The solutions that offer these benefits often improve overall data safety and enable compliance with new regulations and standards for cyber security as well.

5. **Pain Point:** Understanding the challenges and opportunities of disruptive technology
   Lesson Learned: Facilitate a culture that embraces technology — or risk non-compliance

Fast-paced advances in infrastructure, communications, software and hardware are disrupting traditional business models and providing new opportunities for financial institutions to collect and process more data, and interact with clients remotely. Data transmission technology and the adoption of mobile devices and applications have also changed the behavior of customers

and financial institutions' interactions with them, forcing even traditional, change-resistant organizations to evolve for their own survival.

Regulators around the world are taking advantage of these recent technologies as well. They now demand electronic audit trails and are eager to collect vast amounts of data, sometimes more than they can process. The last few years have shown a major increase in the regulatory requirements that financial institutions are obligated to comply with through multiple tax regimes. Regulators are also increasing the pressure with audit crackdowns, widely-publicized penalties on offending financial institutions and increasing emphasis on the personal responsibility of senior managers. These efforts have effectively ended the secret foreign bank accounts practices and have moved the regulators and the industry to attempt to standardize and coordinate multi-lateral approaches toward tax compliance — enter CRS and BEPS.

According to a 2016 survey by Thomson Reuters, the increase of financial disruptive technologies, like virtual currencies, robo-advice and digital ledger technology (i.e., blockchain), will continue to push financial institutions to adapt to new forms of technology. This progression includes utilizing technology to leverage new information acquired and machine learning to identify complex non-linear patterns in large data to generate new business.

So, if your organization is resistant to change, how do you promote the value of technology? Every year, with the passing of new regulations, the financial industry is coming to terms with the fact that more changes are on the way. Further, financial institutions are increasingly mindful of public opinion and the increasing intolerance toward tax evasion.

As a tax professional, it's important to understand these risks and voice opinions about the importance of technology. For financial institutions that embrace technology, an opportunity arises: the ability to shift from a cost center to a revenue generator, while relieving pressure on operational margins. It's this mindset that will enable financial institutions to take full advantage of all that the latest technology offers — or risk being left behind.

An Eye to the Future

As we look ahead to 2018, a variety of trends are on the horizon. As the volume of reportable accounts is set to rise dramatically next year, together with the complexity of dealing with a second wave of CRS jurisdictions, it's not surprising that we are likely to see an increased reliance in technology. This could range from the application of machine learning to better data management to the introduction of third-party software. We may even see financial institutions beginning to consider the potential use of newer technologies, like blockchain.

While there is no doubt that global tax regulations will continue to evolve, technology can provide a solid foundation for global compliance no matter what the future brings. Equally as important is a shift in mindset: viewing tax through a more strategic lens, rather than as a compliance cost center. With so much at stake, the global alignment of tax, technology and organizational strategies is key in ensuring global CRS compliance in 2018 and beyond.

Thomson Reuters is your foundation in a changing world. We stay one step ahead of global tax regulations so you can future-proof your reporting strategy. With 25 years of experience in global tax reporting, we have the knowledge and expertise to assess and improve existing reporting solutions.

Thomson Reuters ONESOURCE™ drives global tax compliance and accounting decision making with the industry's most powerful portfolio of corporate technology solutions, including purpose-built FATCA and CRS compliance functionality.

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1 https://ustr.gov/tpp/: The TPP will make it easier for American entrepreneurs, farmers, and small business owners to sell Made-In-America products abroad by eliminating more than 18,000 taxes & other trade barriers on American products across the 11 other countries in the TPP—barriers that put American products at an unfair disadvantage today.

2 These party countries are Australia, Chile, Peru, NAFTA (Canada and Mexico) and Singapore. Full text from these agreements can be found at https://ustr.gov/trade-agreements/free-trade-agreements.

3 The graph does not take into account the following codes: 189 codes have specific dates on which they become duty free. Where it falls in the graph depends on the date on which the TPP goes into effect. 627 item codes have tariff quota rules and 116 references to a rule that does not exist in the current draft of the TPP. 95,621 item codes will have immediate entry duty free into the United States.

4 Some countries tariff reduction schedules treat all party countries the same and apply the same tariff reduction schedules: Australia, Brunei, Malaysia, New Zealand, Peru, Singapore and Vietnam.

5 Rules designated as EIF & US25 in the tariff reduction schedule are immediately allowed duty free into the U.S. 2010 HTS codes 87042100, 87042250, 87042300, 87043100, 87043200, and 87049000.

6 2015 HTS (rev 2): http://hts.usitc.gov/current"

7 https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text

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