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10 FREQUENTLY ASKED QUESTIONS ABOUT THE COMMON REPORTING STANDARD

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As intergovernmental organizations and other authorities continue the drive for global tax transparency, financial services institutions in the Middle East and North Africa (MENA) region face growing data management and compliance challenges. Countries in MENA – namely: Bahrain, Kuwait, Lebanon, Qatar, Saudi Arabia, UAE and Turkey – have signed up to the International Framework for the Common Reporting Standard (CRS) developed by the OECD, commencing their first reporting season in 2018.

Over 100 jurisdictions are participating in this initiative. This means that Financial Institutions in MENA's adopter countries may have to submit information on a number of reportable account holders to the relevant tax authorities or central banks.

This, along with the fact that there is no standard cross-jurisdictional submission format or set of requirements, represents a substantial challenge for many firms in the region. To provide guidance on this topic, Katherine Lee, FATCA & CRS Technology Consultant at Thomson Reuters, MENA, answers 10 frequently asked questions about CRS.

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1 What is the Common Reporting Standard?

The Common Reporting Standard (CRS) is a global reporting standard for the Automatic Exchange of Information (AEOI), set forth by the Organisation for Economic Co-operation and Development (OECD), and advocated by G20 countries.

More than 100 countries have signed up to exchange information under the CRS. This means that Financial Institutions in those adopter countries need to submit information on their reportable account holders to the relevant tax authorities or central banks.

2 What are the requirements for CRS?

Despite its name, the Common Reporting Standard does not have a unified set of requirements nor a standard submission format. These differ across adopter countries. For example, some jurisdictions require encryption on the submission packages while others do not.

During the first year of CRS reporting, we witnessed early adopter countries reviewing the standard that is produced by the OECD and then amending this in line with their required content. Some countries amended their requirements again, close to their reporting deadlines – which highlights the importance of maintaining an up-to-date understanding of all relevant requirements.

The success of the CRS regime relies heavily on effective implementation by Financial Institutions. Accordingly, it is very important that Financial Institutions are aware of their main compliance requirements:

New Accounts
On-boarding new accounts as per requirements

Pre-existing accounts
Make sure that pre-existing accounts have been correctly reviewed

Documentation
Establishing a policy and procedure manual

Reporting
Reporting reportable accounts

3 Which sectors does CRS affect?

CRS affects Financial Institutions that serve foreign nationals. This includes hedge funds, retail banks, wealth managers and other types of financial services firms that have account holders who are tax resident in the 100+ jurisdictions that have signed up for CRS adoption.

4 How can Financial Institutions decide who is reportable and ensure compliance?

Participating countries determine what accounts are reportable for their jurisdictions. Ultimately, account holders' tax residencies will determine whether they are reportable or not. To comply with the CRS, Financial Institutions must make sure that relevant account holders are fully documented in line with the requirements; and if not, firms need to gather the missing data using the Self Certification forms.

5 Which countries in the MENA region have signed up for 2018 CRS reporting?

Bahrain, Kuwait, Lebanon, Qatar, Saudi Arabia, UAE and Turkey have signed up to begin automatically exchanging information under the CRS in 2018. This group of nations falls into the second wave of adopters.

Globally, there are over 100 participating jurisdictions, including those that began reporting in 2017 (first wave of adopters) and now in 2018 (second wave of adopters).

This means that Financial Institutions in the MENA adopter countries will also need to ensure that they keep up to date with the global list of participating jurisdictions, as they're obliged to report their account holders from all of these countries.

6 Early adopters have already completed their first year of CRS reporting. What can GCC nations learn from their experience?

Data readiness has been identified as a key challenge, even for firms that have been reporting under the US's Foreign Account Tax Compliance Act (FATCA). While FATCA requires reporting on US citizens only, more than 100 countries have signed up to be participating jurisdictions under CRS. This means that financial firms will need to gather a much higher volume of data, in order to report on their applicable account holders.

During the first year, we witnessed many financial firms coming to the realization that they did not have all the account holder information they required for CRS compliance. The need to gather, validate and format data, often at the eleventh hour, was one of the biggest challenges that firms in the early-adopter nations faced.

Financial Institutions in the GCC should commence their due diligence and documentation of account holders as early as possible, in case this process takes longer than anticipated. This will allow organizations more time to gather any missing information and achieve CRS compliance on time. If information is missing in the submission package, Financial Institutions may be required to re-submit with the outstanding data.

7 What initial steps should GCC firms take towards CRS compliance?

Financial Institutions are advised to register as reporting entities with the relevant tax authorities or central banks. Typically, the authorities will then provide these institutions with information or guidance to support their CRS reporting preparations. Another priority for reporting entities is to review all account holders and their tax residencies, in order to gain a clearer understanding of the volumes of data that they need to report.

8 What are the implications for not complying?

The consequences of non-compliance are specific to each jurisdiction, where they are drafted and enforced by local tax authorities or central banks. We have witnessed instances of non-compliance in some early adopter countries that have resulted in significant financial penalties – and some of these fines have been published by the relevant authorities, suggesting that "naming and shaming" is a likely additional consequence.

With more cases like the Panama Papers and Paradise Papers making media headlines, the public is becoming more aware of tax evasion and growing less forgiving. This means that the implications of non-compliance stretch beyond potential fines and their financial impact, to substantial reputational risk.

9 How can Financial Institutions keep up to date on the reporting deadlines for the GCC and other nations?

There is currently no public website that provides this information comprehensively. However, a trusted tax technology platform can provide up-to-date information on all relevant CRS reporting deadlines and submission formats, while cutting complexity from the entire CRS compliance process.

Another option for Financial Institutions is approaching each relevant central bank or tax authority to obtain information on their specific reporting deadlines. Because firms would need to visit several authorities and visit each authority at regular intervals, this can be a time-consuming and resource-heavy process. A whole team of people would be needed to accurately monitor the ever-changing requirements.

10 What are some of the challenges currently faced by Financial Institutions in MENA, and which areas should they invest in to ensure a smooth implementation?

As taxation is relatively new across the MENA region, local authorities have had to develop new frameworks to adopt to these new standards. For CRS, the biggest challenge that is prevalent is the lack of knowledgeable resources within the Financial Institution.

CRS represents a paradigm shift for Financial Institutions in MENA who must devote more resources towards CRS management and compliance and adjust their processes and infrastructures accordingly. Given the magnitude of this change, Financial Institutions should adopt a collaborative approach which could ultimately benefit all parties involved. This will hopefully result in CRS being adopted in a way that works well for the authorities and the firms they regulate.

Simultaneously, the other challenge within Financial Institutions are their existing IT systems – they are advised to assess whether their existing tax and compliance functions, processes and IT systems can meet the new CRS obligations both efficiently and effectively. With the appropriate tax technologies and tools in place, Financial Institutions can lighten the compliance burden and better mitigate the risks associated with CRS violations – making it easier for these organizations to adapt to a more transparent tax landscape with confidence.

For more information about CRS in the MENA region, please contact katherine.lee@thomsonreuters.com

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