



CRS DEEP DIVE

AN APAC TAX REVIEW

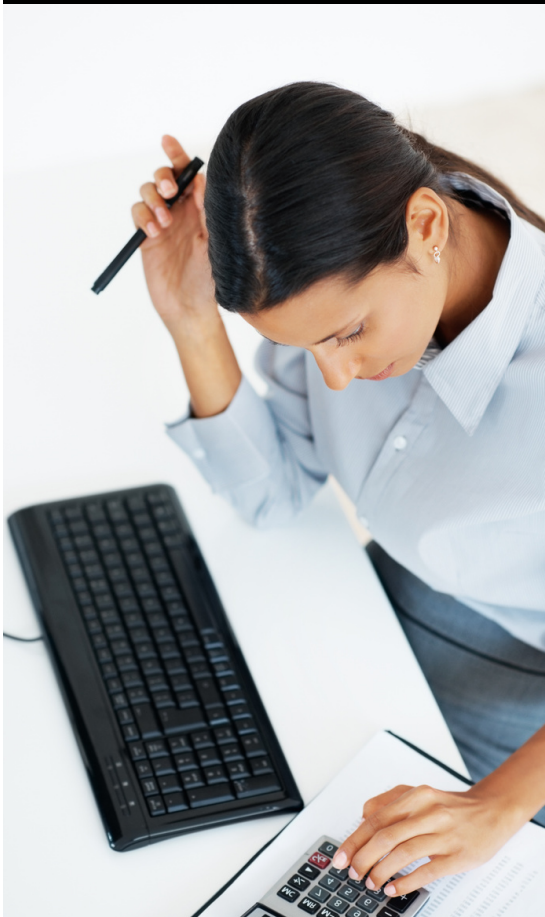
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Over 130 jurisdictions have begun reporting on the **OECD Common Reporting Standard (CRS)** in the last few years, and as a result many have built robust and effective CRS frameworks. However, the ongoing COVID-19 pandemic, as well as the resulting economic downturns, have elevated the importance of tax transparency and reporting, shifting the focus on leveraging data from tax transparency programs to mobilise tax collections and combat tax evasion to the forefront.

In response to this, the OECD published the first Peer Review, providing a review of the legal frameworks of 100 jurisdictions that committed to exchanging information from 2017-2018 which offered an accurate analysis of the current state of global compliance. The report demonstrated that whilst many frameworks are currently in place, there was a need for improvement in some areas. Many financial institutions function using older operating models and have recently been attempting to leverage technology and develop more modern operating models in order to stay up to date with the constantly changing consumer needs as well as the introduction of new compliance frameworks such as CRS.

To address this issue, **Connect Global Group** and **Regnology** partnered for the CRS Executive Roundtable, gathering a group of industry experts to discuss:

- Challenges financial institutions are facing within tax reporting compliance
- How financial institutions are tackling the challenges
- The OECD compliance guide and how FI's are reacting to the findings
- FI operating models and how they are leveraging technology to develop current systems



Challenges in Tax Reporting Compliance

The constant evolution of tax compliance frameworks can often cause financial institutions to have to frequently change and update their operating models and internal systems whilst still maintaining a trustworthy and familiar service to their clients. This can pose many challenges for financial institutions as such developments can be costly, time-consuming as well as it being difficult to know where to start.

Vishnu Veluri, a Senior Consultant at **Regnology**, kickstarted the executive roundtable by sharing a very insightful presentation about the current state of tax reporting compliance regulations, exploring the new OECD compliance guide, the peer review report, and updates on CRS.

Given their position as a solution provider, **Regnology** has been at the forefront of the Tax compliance evolution with their centralised reporting technology for multiple regimes across multiple jurisdictions.

Vishnu pointed out that since the early 2000s there's been an increasing demand for Tax transparency. At the same time, the rise in domestic reporting regimes that are very similar to CRS has left FI's with many aspects to consider when developing their reporting strategies.

When asked what had posed the biggest challenge in terms of due diligence or reporting from **Maybank's** perspective, Surin Segar, Group Head of Tax at **Maybank**, highlighted the issue of data quality. *'Trying to clean the data for reporting purposes is always a problem'*, Surin explained, and on some occasions, they've had to eyeball some of the data lines.

Pranay Rathi, Global Tax Reporting Project Director at **ANZ**, added that part of the problem lies within the point in which the data is acquired, at the point of onboarding. Much of the data of pre-existing customers is usually acquired before banks' systems have been updated, meaning it can be set up in systems that are archaic, without enough controls, or that particular fields are being used for multiple purposes. All of this leads to bad data, causing FI's to eyeball, as Surin described, subsequently resulting in poor reportability and less confidence in the regulators to be able to have confidence in exchanging information.

Emphasising the challenge of data quality, Surin argued that *'while we call this a compliance program, I think the backbone of this is a massive data program'*.

Managing Data Quality

Reiterating the importance of data, Remi Grossmann, Senior Product Manager at **Regnology** agreed that data quality is always the first issue we need to tackle. He explained that what is significant in aiding this solution is also setting up processes that *source the data in a way that is fixed* so that the data quality issue stops being a recurring issue that has to be addressed every year. However, he did also explain how some challenges cannot be addressed; for example, in India, you have to report the gender of the client and some core systems cannot sort that information, leading FI's to require a separate system to process the information. Whilst this may appear to be an inconvenience, Remi highlighted that challenges can often expose weaknesses in a system which otherwise may have been overlooked: *'sometimes CRS is also showing financial institutions that their core systems aren't flexible enough to store and handle properly all the data points that are required by their regulators'*.

Faraz Akhtar, Vice President, Group Tax, Asia at **Deutsche Bank** agreed that data quality is a significant challenge, adding that the importance lies within how frequently or effectively data is updated because data is ultimately not static. He offered another valuable solution to the discussion: ensuring that data is updated in the right manner and ensuring that if there is a change in circumstance, FI's and their systems are capable of capturing the change and updating the information in an efficient manner.

Avichal Agrawal, Executive Director and Responsible Officer (RO), Head of FATCA - CRS at **CLSA**, offered a solution from the perspective of a large institution, which currently manages more than 600 legal entities spread over 30-40 different geographies. He stressed the importance of FI's client relationship managers fully understanding what the compliance requirements are because it can often be difficult to bring together all of the compliance requirements across different departments and business lines. At **CLSA**, he described, relationship managers are sent to complete intense training frequently so that all of the data definitions are clearly defined and that the governance is focused on in a straightforward manner.

Steering the conversation towards clients and what their understanding of CRS is, Vishnu turned back to Surin to share his experiences with clients wanting to close their accounts because of their understandings or lack thereof. Surin described how he believes *'there is an element of fear out there on CRS'*, some customers believe that the country is going to try to tax whatever money they have outside of the country, even though the money is being used for beneficial reasons such as paying for education or investments.

As a solution, **Maybank** has started conducting webinars for their private customers to take them through the CRS requirements, what it means, how it impacts them, and offering a Q&A session at the end to answer their many questions, supporting the notion of thorough and clear communication with clients.





Reportable Clients and Client Communication

Another key aspect relating to client communication is reportability. The panelists were asked in a poll whether or not they would notify clients if they had been reported or were reportable, leading to a mixed response. Pranay claimed that notifying clients would cause them to worry and resent the institution, arguing that it should be the responsibility of local tax authorities rather than FI's.

Chang Yew Kwan, Executive Director, Head of Tax at **Bank of Singapore** pointed out that there is a grey area in when and if you are obliged to notify reportability. He suggested ensuring that whatever the FI decides, they must maintain the same rules for every customer and abide by the law in order to avoid any bad press or legal issues. Bella Lai, APAC Director, Head of RegTech SG at **Regnology** suggested *'finding a balance with a hybrid model, particularly that the jurisdiction you're working with is one that aligns with the banks policy'*.

Navya Srinivas, VP Tax at **ING Singapore** agreed that there should be consistent communication but also explained how this can vary across geographies. She circled back to the importance of data quality, reiterating the importance of ensuring that client details, such as email addresses, contact numbers, etc, are correct and up-to-date and proposed approaching and notifying clients in goodwill as a preventative measure. She reminded the panel that if clients have nothing to hide, they should have no problem with tax compliance.

Using Singapore as an example, Navya shared how it is not required, as part of the local regulations, to send communications whilst it is for other countries to do so. She claimed, however, that *"at the end of the day we have to strike a balance in terms of the banks' policy"*, arguing that the best solution for a bank that wants to have a standardised approach would be to send out communication to all countries other than those that are legally challenging.

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Reviewing the OECD Compliance Guide

Moving onto the topic of the OECD compliance guide, Muhammad Arif Bin Othman, Segment Manager - Client Tax Information at **Standard Chartered**, who had contributed to the document, was asked about his view on the guide and how he believes it will affect the industry over the next few years. He explained that whilst it's not a regulatory requirement for FI's to read the document, it sends a signal that regulators are making an effort to carry out reviews and understand the effects of the regulations; therefore, he continued, it would be wise for FI's to refer to the document.

Faraz noted that in different countries, the detail in the guidelines varies; for example, in China there are very brief specifications, whereas in India there is a lot more detail. *'Countries issue guidelines in different manners and forms, therefore we should always refer back to the mother document for guidance'*. In addition, Faraz recommended that FI's should read the UK's HMRC guidelines because the requirements are listed very clearly and in great detail.

Avichal claimed that this is now moving towards a compliance project. **CLSA** set up QI, FACTA, and CRS quite a while back and made sure to carry out proper quality assurance and a proper operational review, he described. What they are now focusing on is the end goal, which is to ultimately stop tax avoidance. Vishnu agreed, adding that: *'it's not really a checklist approach, but really understanding the spirit of regulation itself'*. Despite this, however, Avichal reminded the panel that whilst the regime is set up to prevent tax evasion, individual circumstances need to be considered, for example, some clients may move countries and want to set up a backup nest somewhere else. Circling back to the focus on clear communication, he emphasised the importance of working with relationship managers and clients to address the sensitivities of circumstances that may arise and assure all parties that they are protected.

Operating Models and Leveraging Technology

In order to provide an efficient service, institutions must be supported by robust and secure operating models which utilise technology. With the introduction of CRS, financial institutions have had to make decisions on how to adapt existing infrastructure to work alongside new regulations. Vishnu raised the issue of CRS governance due diligence vs AML and KYC, prompting the panelists to discuss how due diligence and reporting can be intertwined whilst being completely separate.

Pranay (**ANZ**) started by providing a valuable explanation of each element and how they work individually as well as together. He began with a description of the differences between AML and CRS:

'Looking at AML, it's a risk-based approach whereas if we look at FACTA and CRS it is not risk-based, its record level or account level.'

He explained further, describing how reporting is an outcome that is perceived by correct due diligence and correct onboarding. Pranay shared that what he has mostly seen is that FACTA and CRS processes have been built on top of AML and KYC. CRS and FACTA, he explained, have a higher standard of collection and any remediation needs to be synchronised with KYC collection, for example, if you collect an address it needs to be synchronised with what is on the system. He concluded, therefore, that there is no reason why they should be separated if they directly affect one another and ultimately work hand in hand.

In alignment with Pranay's argument, Bella agreed that it is better to avoid so much separation, however, she did highlight that there are some differences. AML is a risk-based approach and CRS is a very rule-based approach, yet *'that being said, the overlap is huge'*. On the other hand, Avichal (**CLSA**) argued that in fact, both of them have risk elements and that there is a risk element with CRS which is not dissimilar to the risk assessment of the AML, KYC. That being said, he did also agree that it is better to build on the AML and KYC to incorporate CRS and FACTA.

Tom Toryanik, Executive Director and Tax Advisor at **Nomura** added that it is not impossible to completely separate them and that in fact, some circumstances may require it. In most cases, if separation is needed, the FI would need to demonstrate very strong controls around the CRS process and collections. He argued that there is no need to set up additional controls and processes in parallel to AML and KYC when you already have strong AML and KYC processes required by regulators, reiterating the notion of closing the gap that the panelists had suggested prior.

Bella concluded, stating that *'At the end of the day, the spirit of CRS is to prevent tax evasion and because its a crime, so, in that same spirit, I could only see the future would be the requirement of more of these regimes to come together to combat crime essentially'*.

Throughout the discussion, it became clear that new regulations could pose challenges to FI's, and with the constantly evolving nature of regulations, these challenges were unlikely to subside too easily. However, what was also made clear was that FI's can utilise pre-existing parts of their operational models alongside new technologies in order to adapt to new regulations. What remained crucial that the end goal should remain the same: preventing tax evasion. With the spirit of CRS in mind as well as the valuable guidance provided by the OECD, financial institutions should be able to adapt the necessary processes to evolve alongside the industry.

To Watch the Full Discussion

This whitepaper is a summary of the discussion held at the "CRS Deep Dive" Executive Roundtable in June 2021, produced by **Connect Global Group** for **Regnology**.



About Regnology

Regnology is a leading international provider of innovative regulatory, risk, and supervisory technology solutions (RegTech, RiskTech, and SupTech), of AEOI and tax reporting products, as well as of services along the Regulatory Value Chain for financial services. Regnology has been a partner for banks and regulators for 25 years. Until the end of 2020, the company was part of BearingPoint group and operated under the name BearingPoint RegTech. Since the sale of the RegTech business to private equity firm Nordic Capital, the company has been independent. In June 2021, the company joined forces with Vizor Software and recently changed its name to Regnology. In total, Regnology serves more than 7,000 financial services firms with reporting solutions. At the same time, the company enables more than 50 regulators and tax authorities on five continents to collect data from 34,000 firms in 60 countries. Regnology has a total workforce of over 770 employees at 17 office locations in 12 countries.

More information:
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THE ROUNDTABLE LEAD PANELISTS

It is important to note that all the answers provided by the experts in this webinar are their own and do not necessarily represent the views or opinions of their organisations.



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