The Foreign Account Tax Compliance Act (FATCA), the OECD Common Reporting Standard and the road to full automatic information exchange. Plus some suggestions to managing the complexity.
Agenda

- Introduction to FATCA – overview
- The OECD “Common Reporting Standard” – FATCA for everyone
- The road to full (global) automatic information exchange
- Implications and some proposals for managing the complexity and the challenges
Tax Information Exchange Agreements
From a slow start to everyone doing them. Increasing complexity
Tax Information Exchange Agreements - a system of Bilateral Agreements

- Banks collate account details
- Pass to local tax authorities
- Tax authorities share data on one-to-one basis
- Cross Check
- Investigations
Enter the United States: The Foreign Account Tax Compliance Act

- Banks collate account details
- Pass to local tax authorities
- Local tax authorities collate data
- Pass to IRS and Treasury
- IRS and Treasury reciprocate

- Cross Check
- Investigations
Enter the United States: The Foreign Account Tax Compliance Act

- Banks collate account details
- Pass to local tax authorities

- Local tax authorities collate data
- Pass to IRS and Treasury
- IRS and Treasury reciprocate

- Cross Check
- Investigations

Account Holders

Financial Institutions

Local Tax Authorities

UK

Germany

France

Spain

Italy

IRS & Treasury

IRS and Treasury

Client account data

IRS and Treasury

IRS and Treasury
FATCA Reporting – What’s the point?
Cross checking what the client reports with the institution

- **FBAR**
  - *xxxx*
  - *xxxx*

- **8938**
  - *xxxx*
  - *xxxx*

- **Form 8966**
  - *xxxx*
  - *xxxx*

- **Exception Report**
  - Bob
    - Acc.1
    - Acc.2
  - PFFI
    - Acc.1

- **Investigations**
- **Cross Check**
- **Requests for information**
- **Aiding and abetting liability?**
- **Participating Foreign Financial Institution (PFFI)**
- **Enquiry**
- **Request for information**
- **Audit**
- **Penalties**
Step the next; The OECD "Common Reporting Standard " → FATCA for everyone

- Basically mirrors FATCA
- Everyone else jumping on board
- Automatic Information Exchange among OECD countries
- "Look Through" to ultimate beneficial owners

- Increased due diligence
- Increased compliance requirments
- More work
- More Complexity
The OECD "Common Reporting Standard"

- Automatic Information Exchange among all OECD countries
- Has been ratified (agreement to do it has been signed)
- Essentially the same information reported under CRS as under FATCA
- Very broad definition of what is a financial account, i.e., anything and everything
- All Financial Institutions required to report
- Strict due diligence and KYC processes
- Monitoring of change of circumstances processes, e.g., taxpayer changes domicile
- Module to identify reportable events
- Proofing and audit systems, safeguards and checks
- Governance and compliance processes

The Professionalisation of Tax collection
Worldwide
FATCA + OECD Common Reporting Standard = Global (more or less) Automatic Information Exchange

- Each country accesses its own residents account data
- Easily scalable to include all OECD countries

USA IRS
UK HMRC
German Steueramt
France Fiscale
Spain Fiscale
Italian Fiscale

The tCloud

- Client account details
- All participating countries

Banks collate account details
Pass to collection office
Data is fed into the „tCloud“

Each countries tax authorities have access to their own countries residents account details
In each participating country
This will provide Tax Authorities with full information on a taxpayers world-wide assets on the input of a single Tax Identification Number (TIN).

**Tax Identification Number (TIN)**
"12345XXZZ3254"

- Gross and net income
- Bank accounts
- Investment accounts - stocks and bonds
- Gold and Precious metals
- Pension plans
- Trusts and Insurance policies
- Real Estate
- Private and closely held companies
- Signatory authorities
- Other financial assets

**Taxpayers' Worldwide Assets**
(at all institutions, all countries, everywhere)
Global Cross checking what the client reports with the institution

Client (Bob) → Local Tax Authority → Financial Institution

Bob's Report
- xxxx
- xxxx

FI Reporting Form
- xxxx
- xxxx

Cross Check

Exception Report
- Bob
  - Acc. 1
  - Acc. 2
- FI
  - Acc. 1
  - Acc. 2

Investigations

- Enquiry
- Request for information
- Audit
- Penalties

- Requests for information
- Aiding and abetting liability?

Bobs offshore holdings according to Bob and the FI
The Opportunity - Services clients will need more of

- Tax planning and optimisation
- Asset protection
- Inheritance and succession planning
- Tax optimised investing - multiple jurisdictions, multiple person families
- Reporting - to everyone and anyone
- Fiduciary services
- Setting up and maintenance of various wealth planning/fiduciary structures
- Administration and control
- Oversight - Monitoring & Evaluation, audit services
- Sophisticated life insurance
- Legal services; not just tax disputes
- Global health insurance
- Education

- Investment advisory
- Cash flow management
- Litigation and court proceedings
- Operations management
- Jurisdiction specific services
- Personal security
- ..
- .....
In a wealth management context, the trusted advisor is the center. Managing and coordinating a set of services for the client - The Model

Client

- Trusted Advisor (The Manager)
  - Investment Management
  - Tax Planning
  - Trust & Estate Planning
  - Fiduciary Services
  - Legal Advice
  - Cash-Flow Management
  - Insurance Solutions

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The Reality: Consider the Trusted Advisor at the center of a hub → Lots of spokes…. 

- **Trusted Advisor**
- **Asset Manager 1**
- **Asset Manager 2**
- **Asset Manager 3**
- **Asset Manager XX**
- **Global Health Care/Health Insurance**
- **Bank 1**
- **Bank 2**
- **Bank 3**
- **Bank 4**
- **Bank 5**
- **Bank XX**
- **Investment Fund manager**
- **Compliance Specialist 1**
- **Compliance Specialist 2**
- **Compliance Specialist 3**
- **Specialty Consultants**
- **Consulting firms**
- **Consulting firms…**
- **IT Firms**
- **Web Design**
- **Web hosting**
- **Hardware Vendors**
- **Software Vendors**
- **More insurance Co's**
- **Law firm 1**
- **Law firm 2**
- **Law firm 3**
- **Law firm …**
- **Recruitment and personnel agencies**
- **Travel firms**
- **More Consultants**
- **More Consultants**
- **More Consultants**
- **More Consultants**
- **Client**
- **The Regulator**
- **Tax Advisor 1**
- **Tax Advisor 2**
- **Tax Advisor 3**
- **Tax Advisor 4**
- **Tax Advisor XX**

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A metaphor for Service Management in the modern Wealth Management world
How to deal with it?

→ Alignment of interests (and rewards)
Approach to Practical Solutions

Service Management

- The basic heart of it is the management of services
- Know **WHO** is delivering **WHAT**, **WHEN**, **TO WHAT STANDARD**
- How much does it **COST**.

→ CONTROL ←

Sounds simple???
Managing complexity

- The planning process;
  - who does what, by when, to what cost
- Who is Responsible, Accountable, Consulted, Informed
  - and for what
- Know what services you are providing
  - and by whom to what standard of quality and cost
Example of planning - setting up a unit linked life insurance policy

<table>
<thead>
<tr>
<th>Example plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tasks</strong></td>
</tr>
<tr>
<td>1 Contractual negotiations</td>
</tr>
<tr>
<td>2 Set up the policy</td>
</tr>
<tr>
<td>Subtask 1</td>
</tr>
<tr>
<td>Subtask 2</td>
</tr>
<tr>
<td>Subtask 3</td>
</tr>
<tr>
<td>3 Define Investment strategy</td>
</tr>
<tr>
<td>4 Check for tax compliance</td>
</tr>
<tr>
<td>Subtask 1</td>
</tr>
<tr>
<td>Subtask 2</td>
</tr>
<tr>
<td>Subtask 3</td>
</tr>
<tr>
<td>5 Implications for beneficiaries</td>
</tr>
<tr>
<td>6 Carrier sets up bank account</td>
</tr>
<tr>
<td>7 Client transfers money to bank</td>
</tr>
<tr>
<td>8 Asset manager implements strategy</td>
</tr>
<tr>
<td>9 Check of implementation of strategy</td>
</tr>
<tr>
<td>10 Ongoing maintenance of policy</td>
</tr>
</tbody>
</table>

| **Total Cost Estimate** | **$28'000** |
Know who is doing what - The assignment matrix

The heart of the delivery platform / model / process

- Management and Organisation
- Technology
- Communications and reporting
- Processes and procedures

Key Tool: The RACI Table

<table>
<thead>
<tr>
<th>R.</th>
<th>A.</th>
<th>C.</th>
<th>I.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible</td>
<td>Accountable</td>
<td>Consulted</td>
<td>Informed</td>
</tr>
<tr>
<td>provides testimony</td>
<td>Expert Witness</td>
<td>Case Manager</td>
<td>Consultant</td>
</tr>
<tr>
<td>prepares documents</td>
<td>I</td>
<td>A</td>
<td>R</td>
</tr>
<tr>
<td>project manages</td>
<td>I</td>
<td>R</td>
<td>C</td>
</tr>
</tbody>
</table>

RACI Definitions

<table>
<thead>
<tr>
<th>R.</th>
<th>Who is Responsible</th>
<th>The person who is assigned to do the work</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>Who is Accountable</td>
<td>The person who makes the final decision and has the ultimate ownership</td>
</tr>
<tr>
<td>C.</td>
<td>Who is Consulted</td>
<td>The person who must be consulted before a decision or action is taken</td>
</tr>
<tr>
<td>I.</td>
<td>Who is Informed</td>
<td>The person who must be informed that a decision or action has been taken</td>
</tr>
</tbody>
</table>

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# A simple example

## Project: Flying a plane

<table>
<thead>
<tr>
<th>ID</th>
<th>Task</th>
<th>Pilot</th>
<th>Co-pilot</th>
<th>Cabin Crew</th>
<th>Air Traffic Control</th>
<th>The Passengers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Take-off</td>
<td>R/A</td>
<td>C</td>
<td>I</td>
<td>C/I</td>
<td>I</td>
</tr>
<tr>
<td>2</td>
<td>Flying to destination</td>
<td>R</td>
<td>R</td>
<td>I</td>
<td>C/I</td>
<td>I</td>
</tr>
<tr>
<td>3</td>
<td>Food and beverages</td>
<td>I</td>
<td>I</td>
<td>R/A</td>
<td>C/I</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Landing</td>
<td>R/A</td>
<td>C</td>
<td>I</td>
<td>C/I</td>
<td>I</td>
</tr>
</tbody>
</table>
A central store of services and their providers
Know exactly who you have providing what, to what quality and price

Central management of all services and service provision
- All services being provided by the family office
- Their various providers
- Contact people (service owners) of all services at all providers

With Feedback on results
- Project name and description - what was the service purchased for?
- What Services were purchased exactly?
- Delivered on time (completed on time)?
- Delivered on budget?
- Comments - how did it go?
- Expected Result vs. Actual Result - did you get what you wanted?
### Service Inventory and Management Tool

<table>
<thead>
<tr>
<th>Services</th>
<th>Speciality (Sub-Category)</th>
<th>Service Provider (Company name)</th>
<th>Contact person (Owner)</th>
<th>Project name and description</th>
<th>Services purchased</th>
<th>Delivered on time</th>
<th>Delivered on budget</th>
<th>Comments</th>
<th>Expected Result vs. Actual Result</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Insurance</strong></td>
<td>Life insurance</td>
<td>Vaudoise</td>
<td>Bill Smith</td>
<td>Bills big project</td>
<td>Life insurance</td>
<td>No</td>
<td>No</td>
<td>Cost and budget overruns</td>
<td>Ok</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>property insurance</td>
<td></td>
<td></td>
<td>Paid extra for delivery</td>
<td>Ok</td>
</tr>
<tr>
<td><strong>Investment management</strong></td>
<td>Asset management</td>
<td>Global Asset Management</td>
<td>Gerry Mahon</td>
<td>Gerry mega project</td>
<td>Investment advisory</td>
<td>Yes</td>
<td>Yes</td>
<td>Did not deliver returns expected</td>
<td>Not ok</td>
</tr>
<tr>
<td></td>
<td>Fund management</td>
<td>Smith’s Fund company</td>
<td>John Smith</td>
<td>Johns super project</td>
<td>Fund management</td>
<td>Yes</td>
<td>Yes</td>
<td>Mislaid on market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hedge funds</td>
<td>Blacks hedge funds</td>
<td>Bill Black</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Fast, accurate, setting up of funds</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Commodities investing</td>
<td>Glenrock</td>
<td>Glen Rock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Well done</td>
<td></td>
</tr>
<tr>
<td><strong>Banking services</strong></td>
<td>Custody services</td>
<td>Big Bank</td>
<td>Bob Big</td>
<td>Ongoing custody</td>
<td>Securities custody</td>
<td>Yes</td>
<td>Yes</td>
<td>Watch reiterations on white label</td>
<td>Ok</td>
</tr>
<tr>
<td></td>
<td>Investment banking</td>
<td>Bigger Bank</td>
<td>Bill Bigger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Private banking</td>
<td>Small and quiet bank</td>
<td>Grant Small</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax</strong></td>
<td>US tax</td>
<td>US Tax and Co.</td>
<td>Peter Stock</td>
<td>Pete’s US tax project</td>
<td>US tax services</td>
<td>No</td>
<td>No</td>
<td>Huge cost overruns. Work delivered below expected. Obvious knowledge gaps in PRIC accounting and tax calculations</td>
<td>Not ok</td>
</tr>
<tr>
<td></td>
<td>UK tax</td>
<td>UK Tax and Co.</td>
<td>Graham Smith</td>
<td>Gregs big UK tax deal</td>
<td>UK tax services</td>
<td>Yes</td>
<td>Yes</td>
<td>Very satisfactory. Good service. Knowledgeable, fast to answer queries</td>
<td>Ok</td>
</tr>
<tr>
<td></td>
<td>German tax</td>
<td>Germany Tax and Co.</td>
<td>Bert Schmidt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>High quality delivered.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>German private tax</td>
<td>Germany Private Tax</td>
<td>Gert Klein</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Some takeaways - Managing Complexity

Make things as simple as possible, But no simpler
  – Albert Einstein

- The heart of it is Service Management
  - Know WHO is delivering WHAT, WHEN.

1. Have a dedicated service manager - one person
2. Have and use a project plan - for everything
3. Know and document who is responsible, accountable and informed for what
4. Implement a central service management tool

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The Objective:
Integrated Wealth Management Services and delivery model/platform

Integrated Wealth Management Services

- Provider 1: Asset Management
- Provider 2: Insurance
- Provider 3: Tax, Legal & Compliance
- Provider 4: Lifestyle and Philanthropy Services
- Provider 5: Banking Services

Management  Technology  Communication & Reporting

Delivery Platform

- Full range of services to multi-generational family
- Or, full range of services to specific wealthy clients - their "one stop shop"
- The integrated "personal manager"
Tax transparency - Current initiatives aimed at fostering and improving
The bigger picture; a world of automatic information exchange

The Various Initiatives
- QI system
- FATCA (Foreign Account Tax Compliance Act)
- OECD Common Reporting Standard
- FATF – Financial Action Task Force on money laundering
- EU Savings Directive (EUSD)
- Final withholding tax agreements
- Double Taxation Conventions (DTC)
- Tax Information Exchange Agreements (TIEA)
- Breadth of national measures

FATCA’s place
- FATCA is the largest of a raft of initiatives aimed at creating full transparency (automatic information exchange) in tax (financial) matters worldwide

The OECD Common Reporting Standard (CRS)
- The OECD expands FATCA for the world
- Automatic Information Exchange becomes reality

Final Goal
- The final goal is clearly Automatic Information Exchange
- Important when implementing a FATCA program, keep the big picture in sight