

Digitalisation, automation, coverage, timeliness and reliability:

The core factors of current challenges in the automatic
exchange of information regarding tax matters.



*Finding the whole in the detail and vice versa./Space Shuttle view/Delta of Yukon river, Alaska, USA

In recent years, the financial service sector has increasingly been involved in guaranteeing the tax conformity of its customers, particularly those with a foreign tax domicile, both in Europe and worldwide. This is a challenging situation for the affected financial service providers in a number of ways. Frequent changes of the relevant legislation, confidential customer data, particular duty of care, cost aspects and audit requirements represent a range of IT, operations and management requirements which are difficult to balance. For internationally active groups, the complexity additionally increases due to the differences in the relevant country-specific provisions.

The need for comprehensive, globally applicable and highly automated reporting solutions for this environment is more relevant than ever after the first few years of practical application. Here, SDS IREG is positioned as a reliable, globally proven, comprehensive and highly automated reporting software for the automatic exchange of information and for withholding tax reporting which enables financial institutions and service providers to efficiently fulfil various reporting obligations with a single application.

INTERNATIONAL FRAMEWORK CONDITIONS.

Immediately after the financial crisis of 2008, the international pressure regarding tax avoidance and tax evasion by means of accounts kept abroad began to increase. This led to the implementation of systems for the automatic exchange of information between tax administrations.

As it is the case with many other legal requirements, compliance is not suitable for differentiation on the market, unless an institution decides to offer special models for tax optimisation. In the last few years, however, this grey area in particular has put global financial institutions in uncomfortable situations where a misconduct of individual employees or departments caused serious legal consequences and reputation damage.

Therefore, financial institutions are increasingly leaning towards models with clear responsibility for a service which is impeccable and particularly transparent with regard to tax. This is closely linked to the demand for reliable and at the same time cost-efficient determination of tax amounts for ever more complex calculation models and corresponding audit-proof processes and traceability as well as the creation of corresponding reporting information.

THE CHALLENGES AT A GLANCE.

In the aftermath of the financial crisis, the G20 group committed to a program for the reinforcement of the financial system. As a consequence, the US enacted the Foreign Account Tax Compliance Act (FATCA) including intergovernmental agreements (IGAs) in 2015. The number of jurisdictions which concluded an IGA with the US keeps increasing, but also banks from those countries which did not conclude an IGA can hardly avoid reporting of US-American account holders. In some areas, this topic has even led to changes of business models and to the partial exclusion of certain groups of people from banking services.

Eventually, the OECD's Common Reporting Standard (CRS) entered into force in 2017. After the "second wave" in 2018, more than 100 jurisdictions now participate in the CRS and exchange financial data of tax countries; another smaller wave of newly participating countries is expected. As of reporting year 2017, the Qualified Intermediary regime, originally introduced by the IRS in 2001, requires the tax retention and the reporting for payments of derivatives with a US-American underlying instrument in addition to the reporting of US-American securities (also known as 871 m). Today, the global financial industry is facing a significant number of statutory requirements for the implementation of legally compliant processes and systems which include highly sensitive personal data. The growing number of non-domestic clients to be included in cross-border reporting is a key driver for the implementation of automated reporting processes and applications.

One of the most important cost drivers in this respect is the strong national fragmentation of the relevant technical and functional provisions. While in other areas, enormous progress has been made in the past ten years on EU level (for example through the elimination of the Giovannini Barriers, SEPA, TARGET2, T2S, MiFID/MiFID II, MAD/MAR and other initiatives), a minimum standard has been set in the area of automated exchange of information in form of the OECD's Common Reporting Standard (CRS). This standard, however, was implemented as country-specific regulations in numerous countries for the local financial institutions. The OECD's seemingly simple minimum requirements were enriched with often surprisingly complex national characteristics whose correct interpretation requires profound expertise.

This detailed technical expertise, which is necessary for the implementation of an automatic IT-based report creation, is often only available on the national level and to a relatively small group of people. In comparison, only a small part of this reporting process is uniformly implemented on an international level. After all, there are a number of countries which fall back to the minimum standard for OECD CRS and FATCA and which therefore permit uniform implementation across several countries. In the area of reporting on withholding tax retentions, the US have unrolled a very uniform solution with the Qualified Intermediary (QI) regime. Although there are country-specific regulations in the QI contract, they hardly cause any national differences in the processing of tax retentions and tax reporting. Regardless of these international (minimum) standards, country-specific rules make the automatic exchange of information a sensitive and risky topic with a correspondingly high demand for secure, verifiable and automated processes.

SDS IREG: ONE OF THE WORLD'S LEADING REPORTING ENGINES FOR THE EXCHANGE OF INFORMATION REGARDING TAX MATTERS.

Over the last few years, the international financial service sector has had to extensively deal with tax and regulatory challenges and implement corresponding solutions and processes. Since more than half of the CRS countries articulate requirements which deviate from the OECD master agreement or exceed it significantly in parts, a number of financial institutions are now facing the disillusioning situation that their existing reporting solutions are not sufficient, regardless of whether it is an in-house development or a software which is commercially available. The effort for regulatory maintenance and development has turned out to be so high that individual providers who entered the market a few years back are now turning their backs on it again, which leaves the users of these solutions in a particularly uncomfortable situation. Against this background, SDS positions the reporting engine SDS IREG as a reliable product which is designed for long-term use and can be continuously adjusted to changing standards and requirements.

Thanks to continuous development, SDS IREG has become a renowned state-of-the-art product since its launch in July 2011.

With more than 3,000 reporting FIs and over 3,500 users in more than 80 countries, SDS IREG is now one of the world's leading reporting applications for FATCA, CRS and QI and enables financial institutions and service providers (such as tax consultants) to fulfil various reporting obligations with a single application.

SDS IREG is specifically designed for the Automatic Exchange of Information (AEOI) and offers the highest degree of automation for fulfilling several reporting obligations in one single application. Automatic data enrichment and automatic resolving of exceptions, the capability to handle the most complex issues as well as the applicability in several jurisdictions make SDS IREG the ideal solution for multinational financial institutions and service providers. State-of-the-art technical architecture, unrestricted multi-client institutions capability, central governance as well as a highly modern user interface allow for freedom of choice for the target operating model (TOM) and deployment.

SDS IREG boosts the automation of reporting processes of financial institutions, including the continuous adjustment to regulatory changes.

SDS IREG BUSINESS VALUES

REGULATORY REPORTING AUTOMATION

Highly automated, high-quality and rule-based reporting engine, designed for the future. Modular solution for all desired reporting schemes (FATCA, CRS and QI) on one single platform with a central database, timely adapted to regulatory changes. Multi-client institution, multi-country and multi-language capabilities. The integrated exception handling guarantees efficient and complete reporting.

INDUSTRY-PROVEN RELIABILITY

Highly reliable solution preferred by the industry with a global reach in over 80 countries. Future-proof through a broad customer base which ensures continuous development and a strong product roadmap.

SUPPORT OF NUMEROUS ORGANISATIONAL AND OPERATING MODELS

Freedom of choice for a tailor-made target operating model (on premise, shared service centres, etc.). Model configurations shared across financial institutions guarantee consistent processes within the group. Supports both centralised hubs and local implementations (hub-and-spoke model).

HIGHEST PROCESS EFFICIENCY

Support of central service centres and business processes. Quick and easy integration into existing application environments. Minimising risks and costs via automated Straight Through Processing. Allows you to keep your efforts and costs under control.

FUTURE SCALABILITY AND ADAPTABILITY

Comes with built-in flexibility, unlimited scalability and regular adaptations, designed for unlimited volumes.

FULL COMPLIANCE SUPPORT

Coverage of all functional requirements for extensive data security, access control, audit and tracing capabilities. Data protection and secrecy regarding configuration and data separation on financial institution level. Complies with standard IT methods and technology stacks of the financial service industry.

Working with SDS

SDS is continuously setting digital standards in financial market operations, regulations and compliance solutions for the international financial industry. The comprehensive SDS portfolio covers state of the future products and services for all customer and market related processes, ranging from global securities and derivate processing, regulatory, tax and compliance automation, solution-based consulting, professional testing services to managed services.

More than 3,000 financial institutions worldwide with over 10,000 users in about 80+ countries trust in SDS and its sustainable business values. With our proven industry experience of over 4 decades, we have become a highly trusted and equally reliable partner of renowned financial institutions all over the world. SDS is Member of Deutsche Telekom, one of the world's leading providers of information and communications technology. www.sds.at

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