

FATCA/CRS SURVEY:

Scanning the level of awareness, training
and preparedness in the Cayman Islands.

SUMMARY REPORT

27 March 2017



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“THE FUNDS SECTOR IS CLEARLY A PROMINENT DRIVING FORCE WITHIN THE FINANCIAL SERVICES INDUSTRY”

INTRODUCTION

The Foreign Account Tax Compliance Act was introduced by the United States in order to reduce tax evasion by its citizens. The UK adopted a similar approach widely referred to as “UK FATCA” which has a similar purpose. FATCA requires that financial institutions (FIs) outside the US/UK report information on financial accounts held by their US/UK clients, to the respective authorities of each country (IRS for the US and the UK Treasury for the UK). In general, failure to comply will result in a financial institution incurring a withholding tax of 30% on US source income of that financial institution. However, the Cayman Islands has signed intergovernmental agreements with the US and UK and Cayman based financial institutions will not be subject to this withholding tax unless they fail to comply with the IGA and the local FATCA legislation.

The Common Reporting Standards was introduced by the OECD as the global standard for automatic exchange of information. The Cayman Islands is also fully signed on to the CRS initiative and nearly 100 countries have already signed up to CRS. FATCA and CRS are similar in principle but there are a number of key differences. In both cases financial institutions in the Cayman Islands are required to report directly to the Tax Information Authority, which is recognised as the ‘Competent Authority’ under the various legislation.

While FATCA has been implemented for over two years in the Cayman Islands CRS has only recently been implemented. It is therefore expected that local FIs will likely be in the process of fine-tuning their preparations for the CRS regime.

Given that the two initiatives are very similar in terms of system requirements many firms should find the implementation of CRS less burdensome as compared to FATCA. This is likely because most firms will essentially rely on the system and procedural foundations (for e.g. client onboarding work flow and reporting processes) established as part of their earlier FATCA compliance regime.

This survey aims to capture the extent to which staff within the financial services industry in the Cayman Islands are aware of these two important initiatives, how prepared they are and the level of training that has taken place with respect to FATCA and CRS.

ACKNOWLEDGEMENTS

Thanks to the Company Managers Association, Compliance Association, CI Law Society, CI Fund Administrators Association, Chamber of Commerce and many local firms for their efforts in distributing the survey to their members and staff to enable the broad spectrum of participation required by the survey.

METHODOLOGY

- The survey was distributed widely throughout the business community via various industry bodies as well as via media coverage.
- An online survey of 15 questions was created and respondents completed the survey between the period March 8th 2017 and March 19th.
- The survey was not targeted specifically at compliance professionals and was made available to staff working in a variety of roles within their company.
- The survey reached staff working in firms offering a wider variety of financial services; banking, trusts, captive insurance, reinsurance, fund administration, accounting, legal services, directorships and company management services.
- The survey captured 105 respondents from the financial services industry during the period March 8th to 19th.

“A LARGE PERCENTAGE (64,8%)
SAID THEIR COMPANY HAD FATCA
PROCEDURES IN PLACE”

KEY FINDINGS

In this report we provide the various tables from the survey. While no cross tabulations and comparisons are made within this summary report that level of analysis will be carried out by FTS.

In addition while the survey focused on FATCA and CRS, the data captured also gave some useful insights into more general trends within the financial services sector and these are also reported below with a brief commentary.

“50% SAID THEY HAD CRS PROCEDURES IN PLACE.”

RESPONDENTS PROFILE

- 57% of all respondents performed roles within their companies which related directly to compliance or implied some level of accountability for risk management (for e.g. board members)

FUNDS SECTOR REMAINS THE KEY DRIVER

- Funds sector remains the key driver
- Respondents were asked to list the services their company offered. The results attested to the anecdotal evidence that the Cayman Islands has come a long way since banking & trust services were the primary drivers of the sector in the late 60s to mid 1980s period. While banking & trust appeared 28% of the time, legal services was 26%, company management was 15%, directorships 12% and fund administration 14%. Using the widely accepted view that the funds sector is a large driver in the areas of legal, accounting and directorship services in addition to being the sole influence in the fund admin area, we can see that the funds industry (as estimated by legal, accounting and fund admin services) is clearly a prominent driving force within the financial services sector. This is also an understatement because funds also drive the company management sector.

JOB TENURE IN THE FINANCIAL SERVICES INDUSTRY LOOKS GOOD

- 48% of all respondents in the Cayman Islands financial services sector have been working for their companies for 7 years or more. Only 8% of respondents have worked for their companies for less than 12 months.

MOST STAFF ARE AWARE, OR FULLY UNDERSTAND, FATCA

- 31% of respondents have a thorough understanding of FATCA with a further 51% saying they had a fairly good idea of FATCA and its implications.

FATCA TRAINING BEATS CRS BUT BOTH REQUIRE SOME ADDITIONAL EFFORTS

- 29% of respondents have not had any FATCA training while 45% have not had any CRS training. When these results were filtered to take into account solely compliance staff the results showed that only 8% of compliance staff have not had FATCA training. However, even after filtering, 31% of compliance staff have not had any form of CRS training. This result is consistent with the relatively recent introduction of CRS to the Cayman Islands as compared to FATCA. It is very likely that within a couple of years the level of CRS training will catch up with that of FATCA.
- 33% of respondents said they received some initial FATCA training but not on a regular basis. A lower number (20%) had received CRS training initially but not on a regular basis. Again this is expected given the relative time that each initiative has been in place in the Cayman Islands.

“42% OF ALL RESPONDENTS FELT THAT FATCA HAS HAD A NEGATIVE IMPACT ON THEIR OPERATIONS”

PROCEDURES

- A large percentage (64,8%) said their company had FATCA procedures in place with an additional 13.3% saying they believed they did. A similarly large number (50%) said they had CRS procedures in place, with the same percentage saying they also believed so.

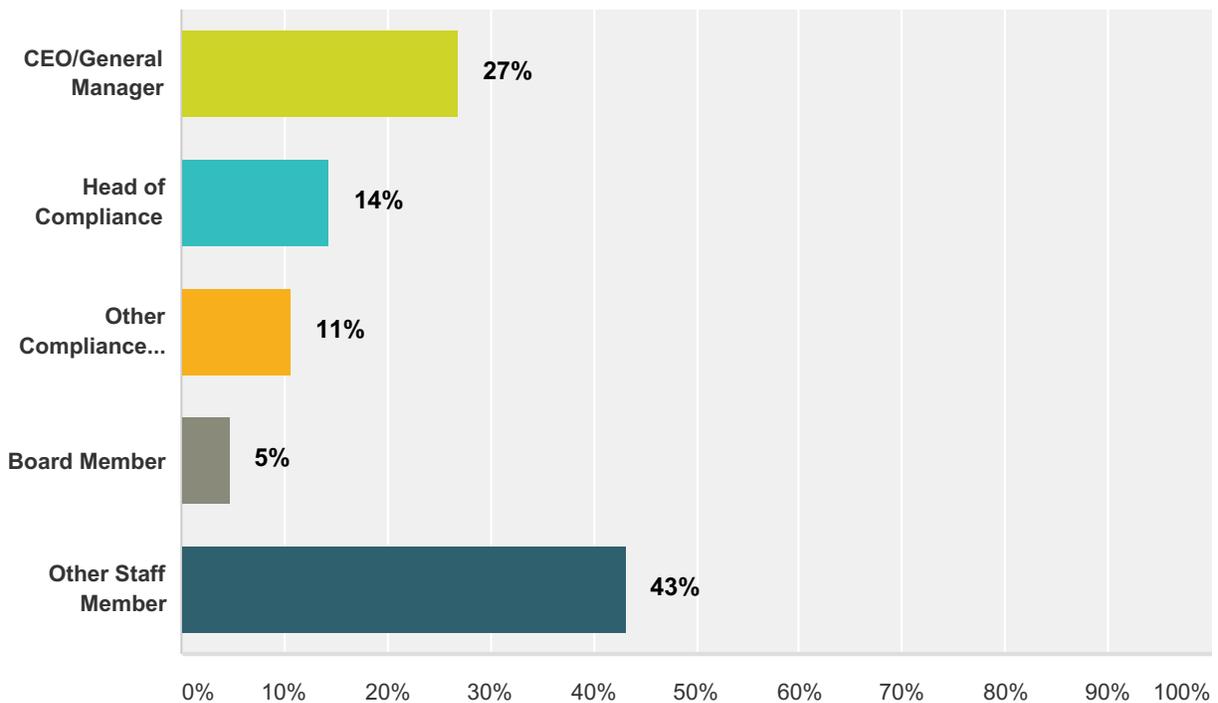
HOW HAS FATCA/CRS IMPACTED MY COMPANY?

- 42% of all respondents felt that FATCA has had a negative impact on their operations with 11% saying it had a positive impact. When results focused on compliance staff only, the results were worse with 48% saying it has had a negative impact and 15% saying it has had a positive impact. The fact that a large percentage viewed FATCA negatively may not be that surprising. Most initiatives that require additional compliance resources, new documentation requirements, additional procedures for on boarding clients etc. are likely to be viewed negatively by staff from a purely operational perspective.
- 35% felt that CRS has had a negative impact on their operations. The fact that a smaller number of respondents felt negatively about CRS as compared to FATCA is likely due to the fact that CRS may not have had sufficient time for staff to make that assessment. This is also supported by the fact that a large number (32%) of respondents said they did not know how CRS impacted their operations.

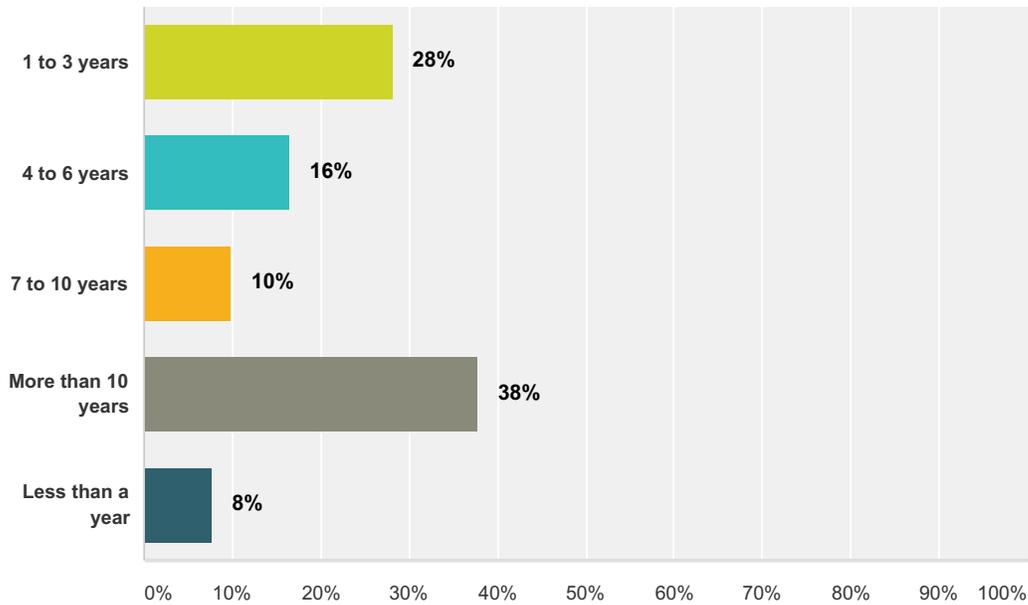
The general conclusion is that firms in the financial services sector appear to be well prepared for FATCA and are on their way to being ready for the CRS regime. Naturally, compliance initiatives tend to be viewed negatively by staff from an operational perspective but it remains important to promote the positive impacts such as improved risk management and the importance to the wider reputation of the jurisdictions to all staff when introducing these initiative to the industry.

FATCA/CRS SURVEY RESULTS

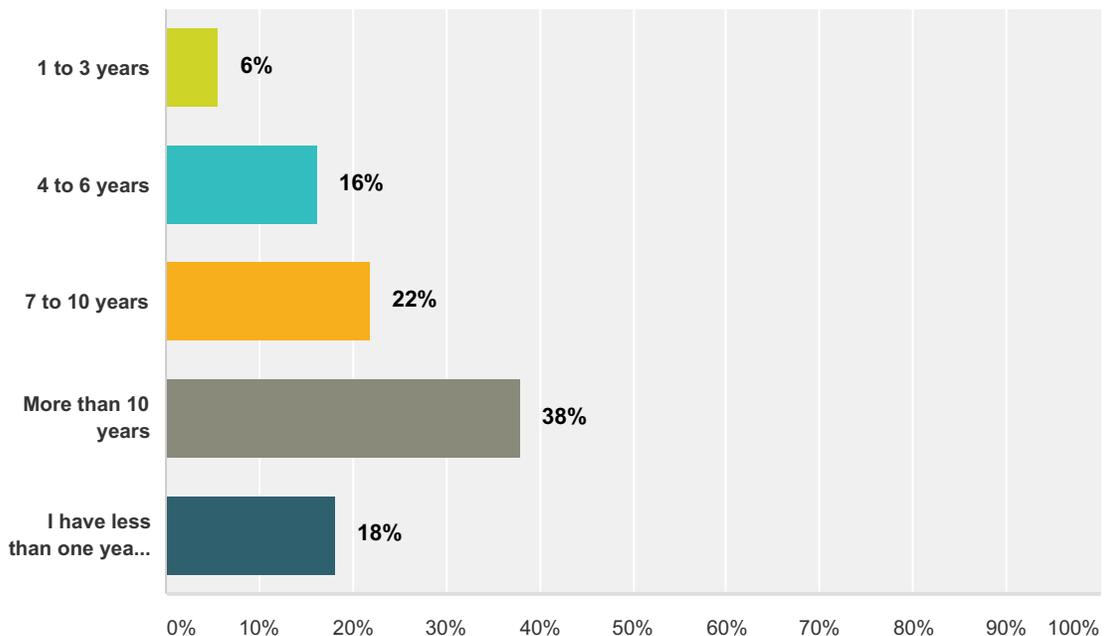
1. WHICH POSITION BEST DESCRIBES YOUR ROLE IN YOUR COMPANY?



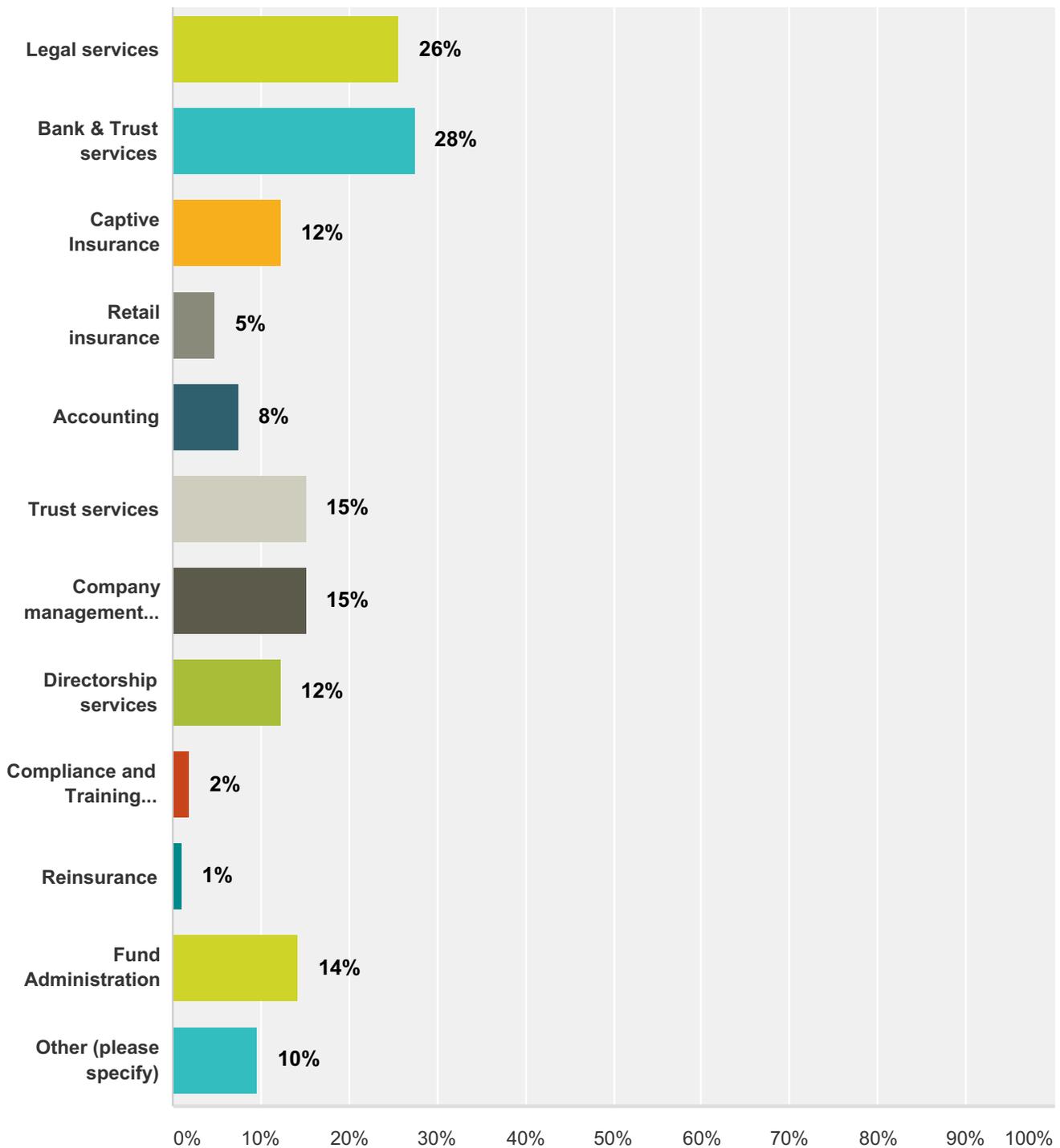
2. HOW LONG HAVE YOU WORKED FOR YOUR COMPANY?



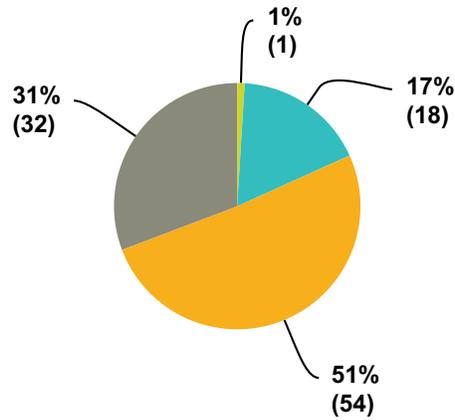
3. HOW MANY YEARS EXPERIENCE DO YOU HAVE IN COMPLIANCE OR RISK MANAGEMENT? (PLEASE INCLUDE YEARS SPENT WORKING FOR OTHER COMPANIES)



4. WHICH OF THE FOLLOWING BEST DESCRIBES THE INDUSTRY IN WHICH YOUR COMPANY BELONGS? (SELECT ALL THAT APPLY)

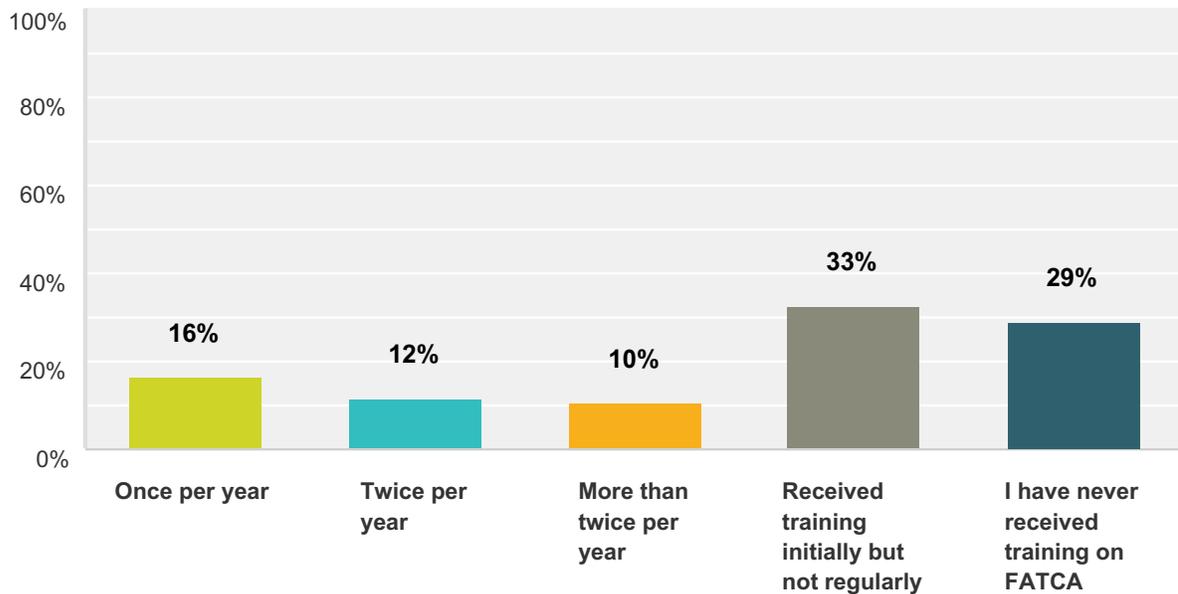


5. HOW WOULD YOU RATE YOUR KNOWLEDGE OF FATCA AND HOW IT IS LIKELY TO IMPACT YOUR COMPANY?

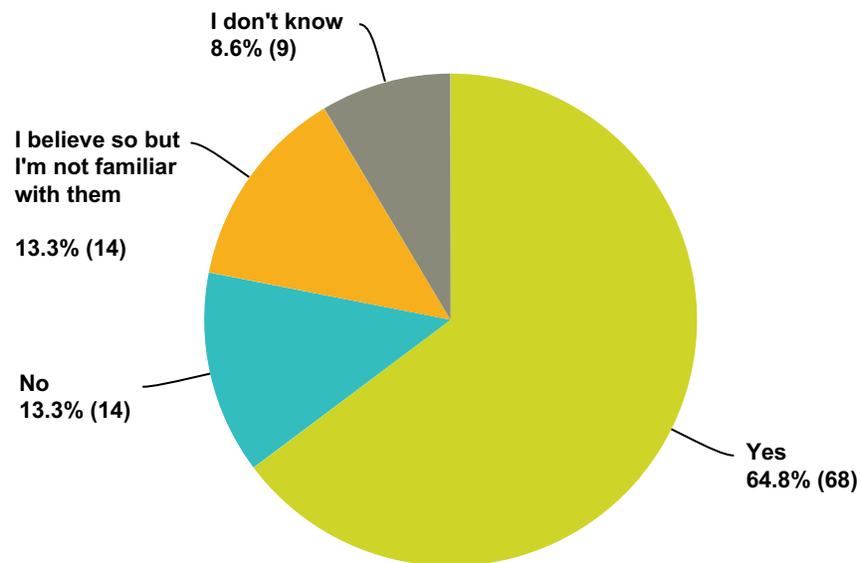


- I have never heard of FATCA
- I'm aware but have very little idea of its impact
- I have a fairly good idea of FATCA and its impact
- I have a thorough understanding of FATCA and its implications

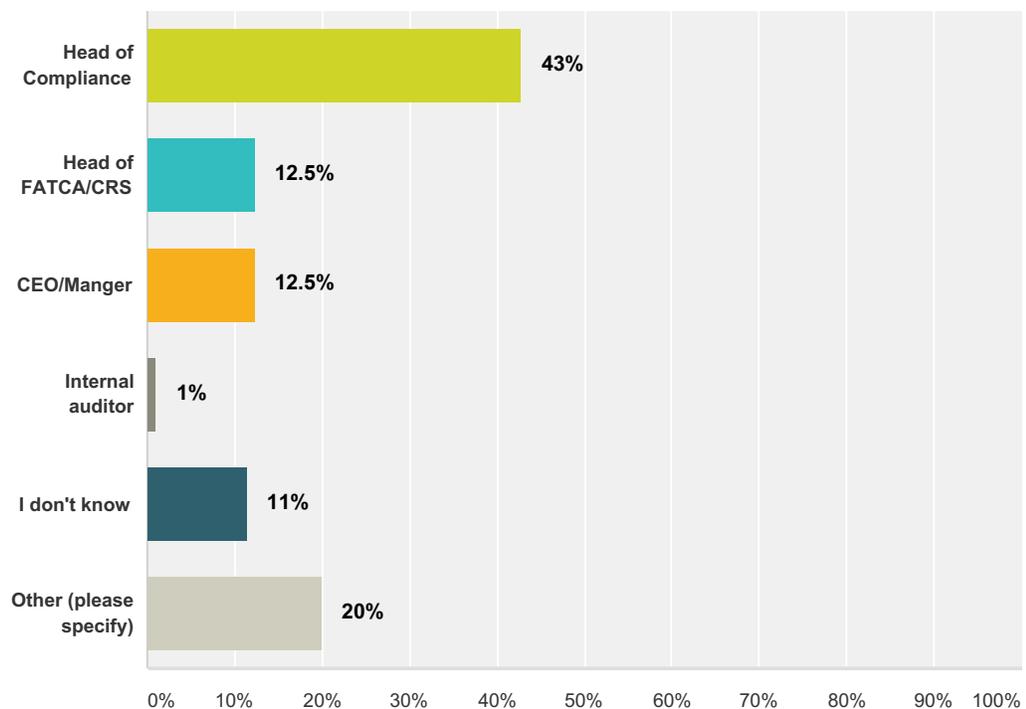
6. HOW OFTEN HAVE YOU RECEIVED TRAINING ON FATCA?



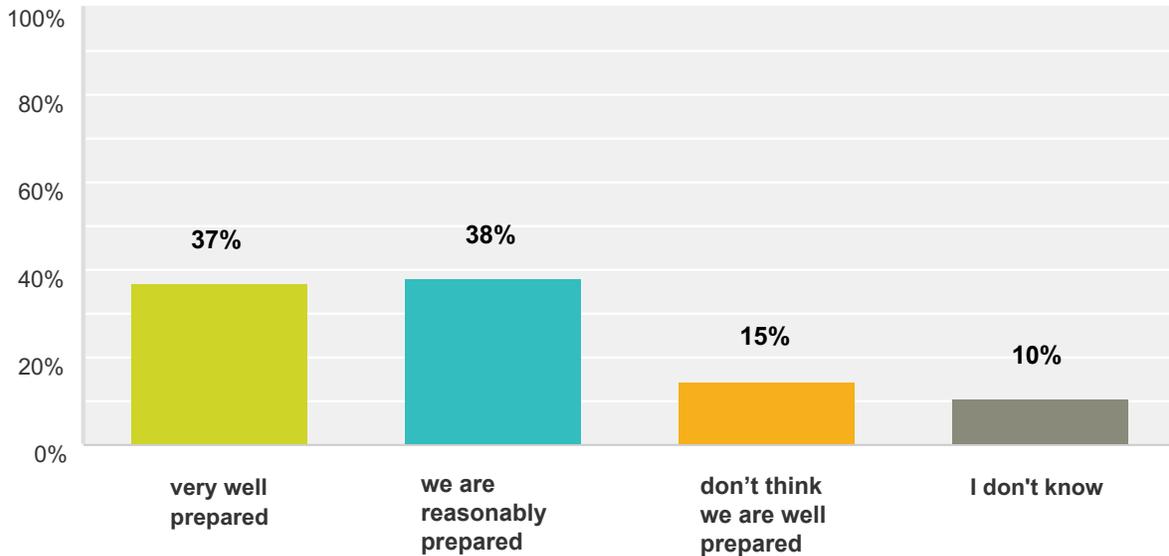
7. DOES YOUR COMPANY HAVE FATCA PROCEDURES IN PLACE?



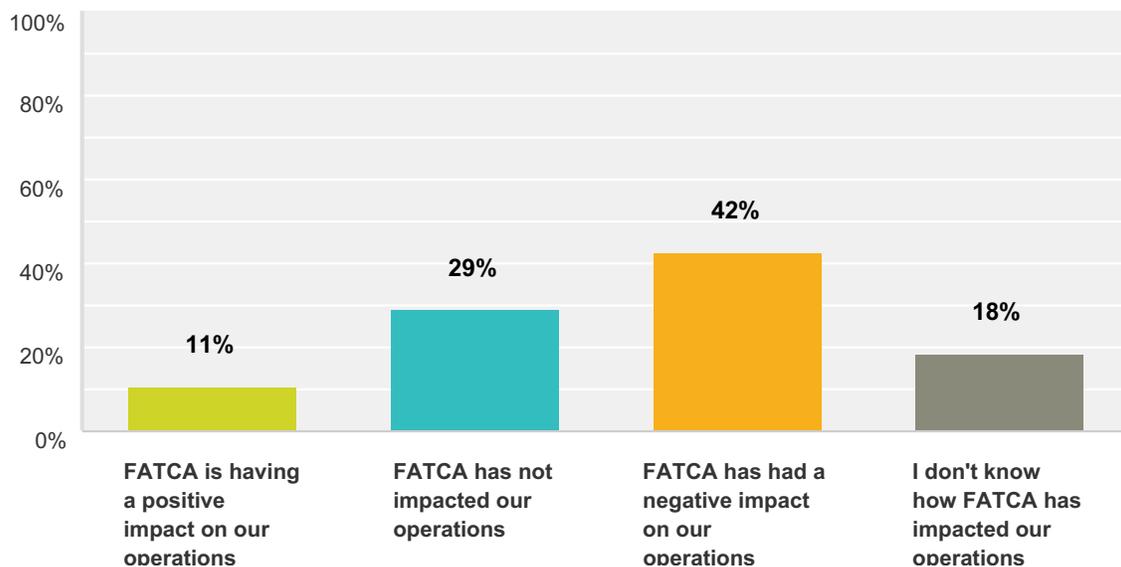
8. WHO WITHIN YOUR COMPANY HAS THE LEAD RESPONSIBILITY FOR FATCA AND CRS?



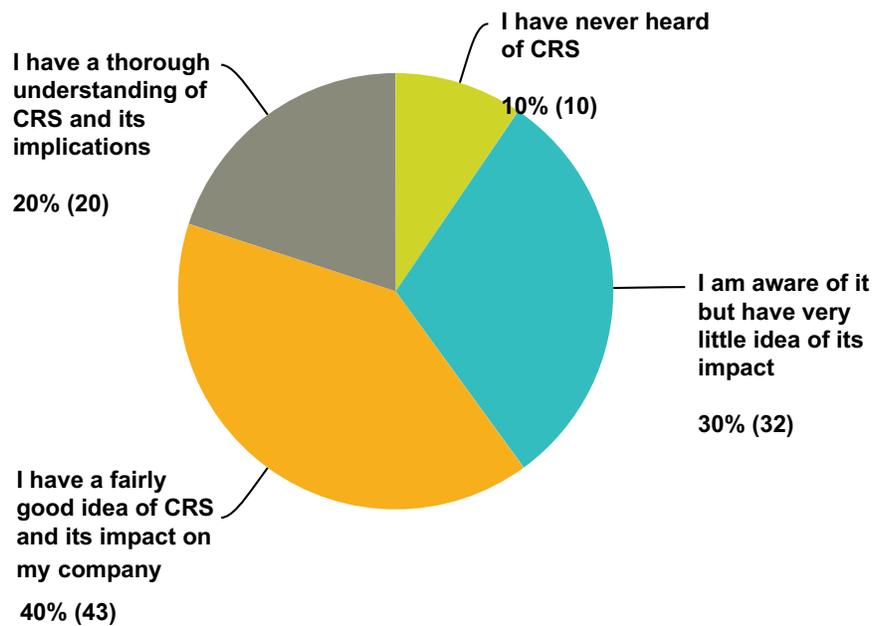
9. HOW PREPARED IS YOUR COMPANY FOR FATCA?



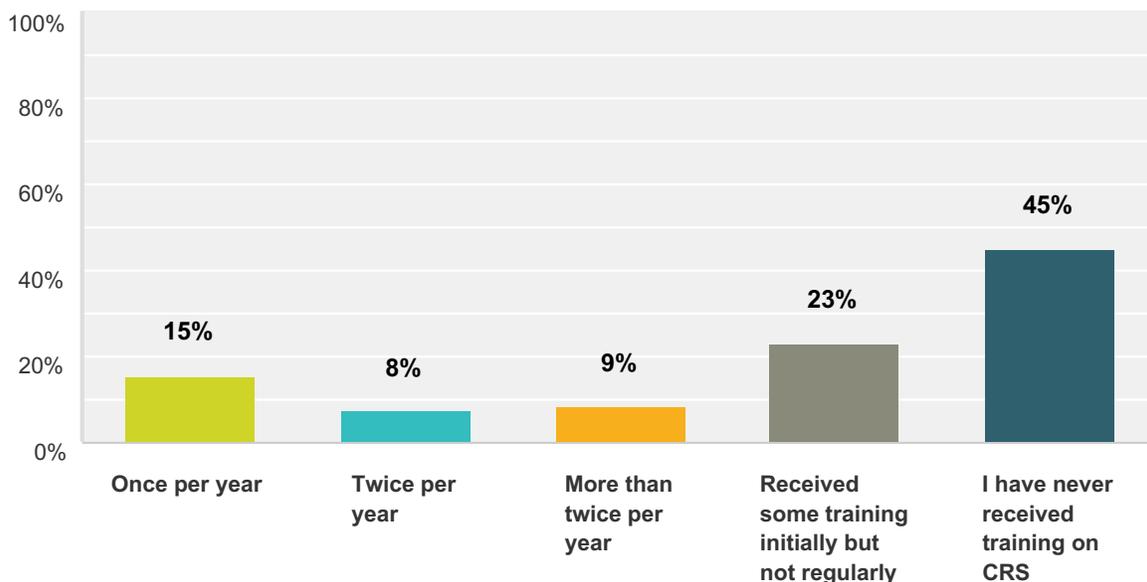
10. HOW DO YOU FEEL FATCA IS IMPACTING YOUR COMPANY'S OPERATIONS?



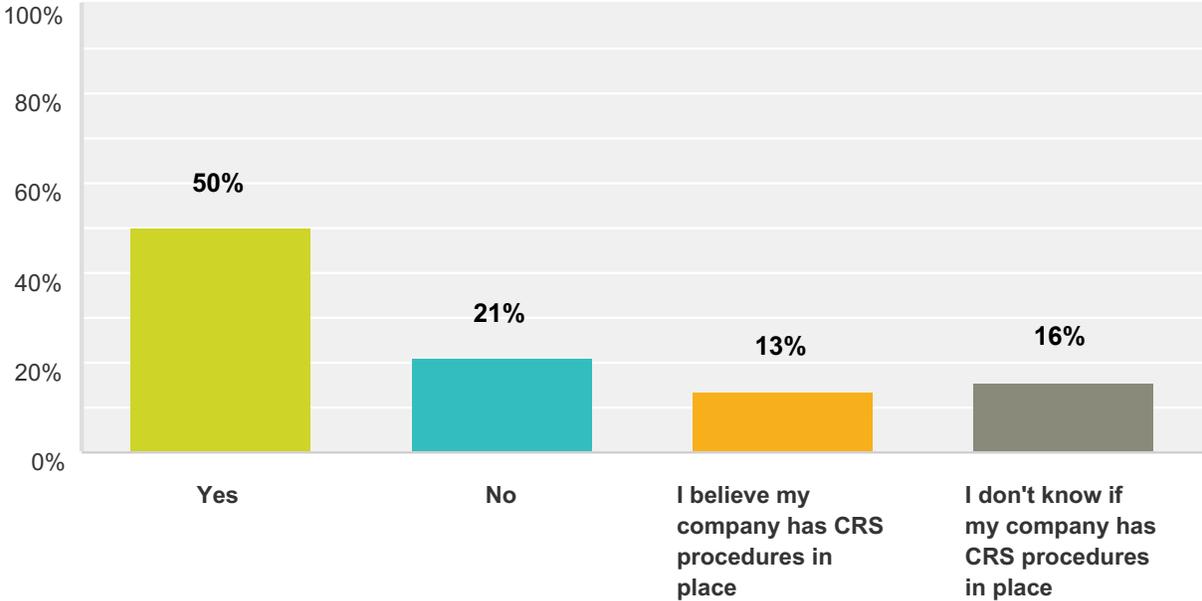
11. HOW WOULD YOU RATE YOUR KNOWLEDGE OF CRS AND HOW IT IS LIKELY TO IMPACT YOUR COMPANY?



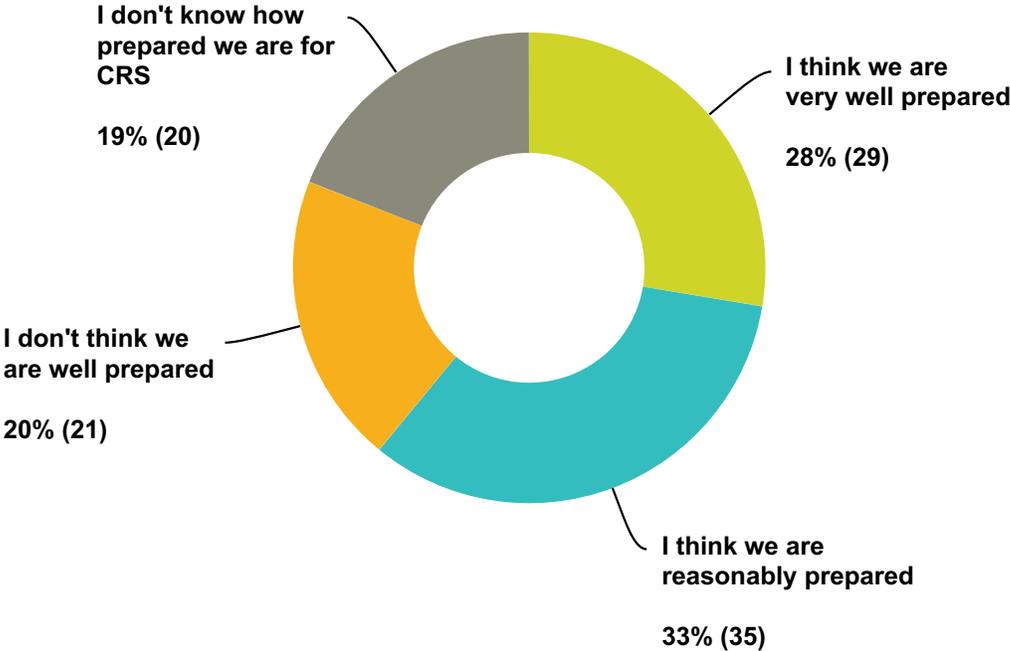
12. HOW OFTEN HAVE YOU RECEIVED TRAINING ON CRS?



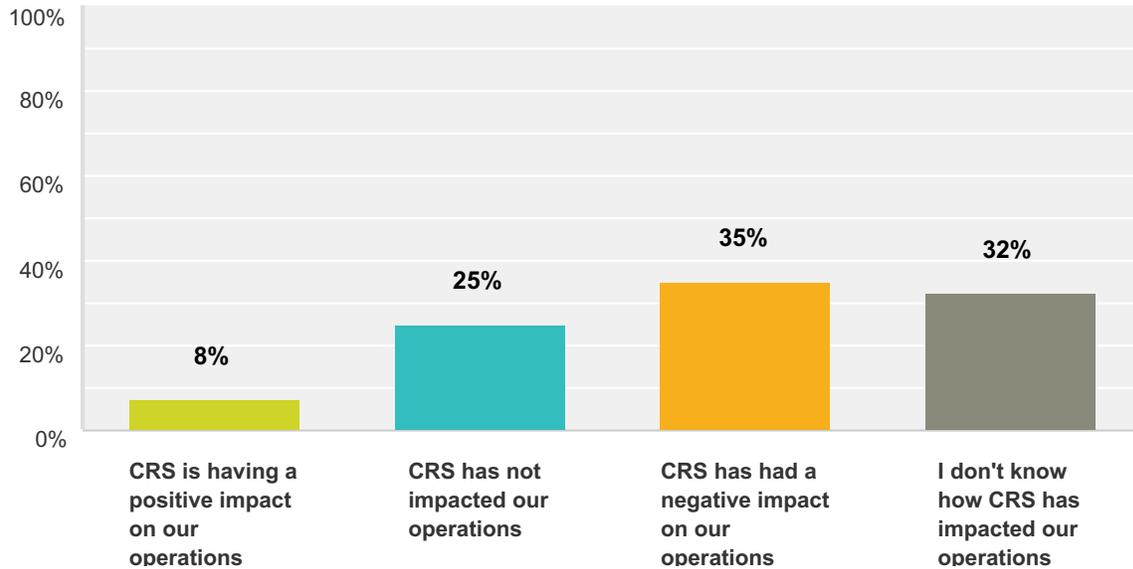
13. DOES YOUR COMPANY HAVE CRS PROCEDURES IN PLACE?



14. HOW PREPARED IS YOUR COMPANY FOR CRS?



15. HOW DO YOU FEEL CRS IS IMPACTING YOUR COMPANY'S OPERATIONS?



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