Tax transparency
Automatic exchange of information and the path to tax transparency
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The activities of Swiss financial institutions are increasingly influenced by supranational organizations and individual countries. Regulatory initiatives are being launched at a brisk pace. Most of these initiatives aim to increase tax transparency.

This is reason enough to analyze the latest developments and use this publication to continue our series on the topic of tax transparency. The new focus reveals how fundamentally the environment is changing for banks. While the first two reports concentrated on the strategic challenges for banks and the withholding tax, the focus now is on the automatic exchange of information (AEOI) and the final implementation of the FATCA regulations.

We do not limit ourselves to this recent development, but rather look at other international initiatives to pursue foreign tax interests and show their impact on the business strategy and business model of Swiss financial institutions.

This examination reveals that the immediate need for action on the part of financial services providers in light of the current trend toward tax transparency is significant, especially as a result of regularization and the preparations in connection with the AEOI. It is essential to deal with these issues in a timely manner.

We hope you will find this report interesting and invite you to contact a member of our team. They would be pleased to answer your questions or discuss issues regarding the review and reorientation of your strategy, your business model or the implementation of the required standards with you in a meeting.
Executive summary

Swiss banking environment today
The entire Swiss financial center and the banking industry in particular continue to face a range of challenges. Supranational organizations and a number of countries are increasing their pressure for greater tax transparency. The introduction of regulations, especially FATCA, has quickly and irrevocably changed the business environment for Swiss banks. The foreseeability of the automatic exchange of information (AEOI) is further accelerating this trend. Although a paradigm shift has been initiated and Swiss banks have already accepted the new reality, the path to full implementation of the required standards is long and involves substantial costs.

The various initiatives at a glance
This publication focuses on the regulations with the greatest impact on the Swiss financial center: the AEOI and FATCA. It also analyzes other relevant initiatives regarding tax transparency: the OECD Model Convention to Avoid Double Taxation, the withholding tax, the EU savings tax and the revised recommendations of the Financial Action Task Force.

The AEOI is based in large part on FATCA. However, there are also significant differences. Unlike FATCA, the AEOI will record a number of clients from completely different countries. This will further increase the complexity of implementation. In addition, under the AEOI there is no group view, no de minimis rule and no penalty tax.

Practical challenges
Banks face the challenge of having to deal with a number of changing regulations all at once. In addition to the transparency efforts, there are other regulatory changes in Switzerland, such as the Financial Services Act (FIDLEG) and the Financial Institutions Act (FINIG). Dependencies among the various regulatory frameworks must be taken into account through joint program governance, always with the goal of realizing synergies.

Past tax problems at the bilateral level cannot automatically be solved with the implementation of the AEOI treaty. Therefore, financial institutions should analyze their risks in the area of existing and new clients, determine what action is needed, and take the necessary steps. A clearly structured and focused process for achieving tax compliance among existing clients is a key aspect in this regard. When accepting assets (from new or existing clients), the Federal Council, pursuant to the FINIG draft, requires that they be reviewed for tax compliance. Consequently, current money laundering concepts may need to be adjusted. It is not necessary to review compliance with tax obligations if the client is subject to taxation in a country with which Switzerland has concluded an AEOI treaty. Under the draft that has been submitted for consultation, evidence of tax compliance must also be provided for assets that have already been deposited. In general, if no such evidence can be provided, the business relationship must be terminated.

Strategic and operational need for action
Banks must look closely at the changed framework conditions and the necessary adjustments to their strategy and business model. A client and target market analysis will make the starting point on the path to tax transparency clear. In order to achieve this goal, a review of the value chain is also required. In particular, the focus is on client identification processes, tax reporting and, not least, a country-specific range of products and services.

1 Tax transparency
The various initiatives at a glance

The financial and debt crisis has increased calls for tax transparency at the international level to an extent that was considered completely unimaginable a few years ago. As a result of the crisis, many countries see themselves forced to vigorously collect the taxes due from their taxpayers based on their tax laws. Tax and law enforcement authorities are increasingly required to fight tax crimes more forcefully and to close tax loopholes. An effort is being made to record all taxpayer income streams, capital income and capital gains as comprehensively as possible. The prerequisite for doing this is receiving as much information as possible from the other countries in which taxpayers have invested assets or maintain bank accounts. If the authorities are able to compare this information against the information provided by taxpayers in their tax declarations, the likelihood of tax evasion or tax fraud will be considerably lower.

Over the last 20 years, several regulations with the aim of promoting this exchange of information have been introduced and are to some extent still applied, but with varying degrees of success. The reason for this was that requesting information from another country is often associated with numerous conditions. In addition, it was difficult for the authorities to obtain information about the beneficial owners behind structures that were not tax-transparent, such as trusts and investment companies.

However, the situation has changed fundamentally with the introduction of FATCA by the US: On one hand, FATCA looks behind non-transparent structures and, on the other, serves as a template for the automatic exchange of information advocated by the OECD.

The following illustration shows the most important international initiatives regarding tax transparency and the implementation of national tax laws:

Tax amnesties and voluntary disclosure programs
Many countries have voluntary disclosure or amnesty programs. Amnesty programs regularly dispense with criminal prosecution – provided there is comprehensive and timely disclosure.

In tax law, such programs are either intended to be ongoing (e.g., self-disclosure that provides relief from criminal prosecution in Germany) or, in view of a future exchange of information, were established for a limited period of time (currently, the programs in Belgium, Greece, the Netherlands and, most recently, Australia, among others).

The aim of these programs is to enable taxpayers to transition to a tax-compliant status. However, in most cases the tax that was evaded and interest must be paid.
1.1 FATCA

With the Foreign Account Tax Compliance Act (FATCA), the US created an instrument that attempts to legally obligate all foreign financial institutions (FFIs) to identify their US clients and report their assets and income to the US tax authorities. Clients can be either natural persons or structures that are not transparent for tax purposes in which US persons are invested. Institutions that neither identify US persons nor forward client data are charged a 30% tax penalty on interest, dividends and sales proceeds from US securities.

In order to prevent conflicts with domestic law and also to negotiate a certain level of relief for their financial intermediaries, a number of countries have concluded treaties on the implementation of FATCA with the US. The treaties provide for two possible FATCA implementation models: Under model 1, the exchange of information is carried out by the respective national tax authorities. Model 2, which Switzerland negotiated with the US, provides for the direct exchange of information between the financial institution and the Internal Revenue Service (IRS), the US tax authority. In addition, model 2 enables the US to submit group inquiries to the relevant country under the double taxation agreement (DTA).

However, the corresponding DTA between Switzerland and the US has not yet been ratified by the US (as of June 2014). FATCA goes into effect on a staggered basis starting in July 2014 and forces financial institutions to make significant changes to their systems and processes. The identification of clients and the search for US clients are particularly time-consuming. However, reporting US persons also presents challenges for financial institution systems. In general, these reports must be prepared for the first time at the end of March 2015 and, depending on the treaty model, sent to the IRS directly or to the tax authority in the country of the financial institution. At least the FATCA rules provide for a gradual introduction, which makes system adjustments easier. At first, only the US person him/herself and the year-end balances of the accounts have to be reported. The next year, the income streams also have to be reported, and the year after that, the sales proceeds from securities as well.

Even US banks have to collect certain data on foreign clients and report it to the IRS

In general, the treaties under model 1 provide for reciprocity, i.e., the mutual exchange of client data between the signatory country and the US. In order for the IRS to be able to deliver this data, it must first be collected by US banks. While the corresponding regulations have already been issued, there was considerable criticism by banks in the US. This culminated in a lawsuit brought by the bankers associations of Texas and Florida against the US Treasury Department.

In a ruling issued in January 2014, the District Court for Washington, DC dismissed the lawsuit. Thus, US banks are also required to collect at minimum the interest income of foreign account holders and report it to the IRS.
1.2 Automatic exchange of information – Common Reporting Standard of the OECD

At the behest of the G8 and G20 countries, the OECD published its proposal for a Common Reporting Standard (CRS) and a bilateral agreement (Competent Authority Agreement, or CAA) on February 13, 2014. Both are intended to govern the automatic exchange of information in tax matters. The path to the CRS was largely paved by the FATCA rules. In general, the CAA and the CRS require the exchange of client data, which the corresponding financial institutions must collect in the participating countries. The exchange takes place automatically between the tax authorities involved and at regular intervals. In March, an agreement was reached in the EU regarding the AEOI; the Swiss Federal Council and the EU have agreed to enter into negotiations.

In fact, the CRS is based very heavily on FATCA implementation model 1, copying the wording of its provisions verbatim in many places. However, there are also some places where it deviates significantly; for example, banks do not have to look for US persons, but rather for natural persons who are domiciled for tax purposes in a signatory state (“reportable persons”). As with FATCA, the CRS also requires that natural persons be identified, irrespective of whether they are direct account holders (“individual accounts”) or are behind structures or companies that are not transparent for tax purposes (“entity accounts”). By doing so, the CRS is trying to close a gap that previous information systems, such as the EU savings tax, left open. Thus, the information that is sent will not just be about natural persons who have an account relationship at a financial institution in another country; in addition, beneficial owners who have organized their investments via foreign companies or trusts and foundation structures must also be reported.

The schedule for implementation of the CRS is ambitious: More than 40 countries have already declared that they want to implement the CRS quickly (“early adoption”). These include all major European countries, as well as the Channel Islands and certain Caribbean islands, but not the US or Switzerland. If the standards are adopted in 2014, expanded rules for accepting clients may be necessary as early as 2015. A reporting obligation would thus need to be met starting in 2016. However, this ambitious schedule may take longer for some countries if they decide to conclude individual treaties with the respective signatory countries.

### Differences between CRS and FATCA, and their implications

The substantive similarities with the FATCA provisions should not, however, lead to the assumption that financial institutions can adopt project plans and directives that have been developed without change. The CRS deviates too much from FATCA to do so. The differences in the following chart show why this is the case:

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#### Accelerated introduction of the CRS (“early adoption”)

The following countries have undertaken to introduce the CRS at an accelerated pace: Argentina, Belgium, Bulgaria, Colombia, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, India, Ireland, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Malta, Mexico, the Netherlands, Norway, Poland, Portugal, Romania, Sweden, Slovakia, Slovenia, Spain, South Africa, the UK, the British crown colonies the Isle of Man, Guernsey and Jersey, and the UK overseas territories Anguilla, Bermuda, the British Virgin Islands, Cayman Islands, Gibraltar, Montserrat, Turks and Caicos.

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As with FATCA, the term “affected financial institutions” is intentionally broadly defined in the CRS. It includes banks, depository institutions, investment vehicles and collective investment schemes, as well as certain insurance companies in the countries that implement the CRS. Complicating matters, however, is the fact that many institutions that were deemed compliant under FATCA are not exempted by the CRS. This is particularly true for smaller, local financial institutions. Although they are exempted from the FATCA requirements, there is no relief available to them in the draft CRS. Registration with the IRS, as the FATCA regulations envisage for financial institutions, is not expressly required in the CRS.

In the identification of accounts, the CRS distinguishes, like FATCA, between existing and new accounts as well as between individual accounts and entity accounts. For existing individual accounts with less than USD 1 million in assets (“lower value accounts”), the specified residential address can be used, unless the financial institution has different information. By contrast, for accounts with more than USD 1 million in assets, a search for evidence is mandatory. A paper-based search can only be dispensed with only if all evidence in the computer system of the financial institution is available. As with FATCA, questioning of the client advisor is mandatory. As soon as there is evidence regarding residency in one of the countries that implement the CRS, the financial institution must assume there is a reporting obligation. An exception is made if the client presents documents that prove residency in another country. There is no “de minimis” rule as with FATCA, meaning that all existing relationships with individual clients must be examined.
For existing business accounts, all account relationships with more than USD 250,000 must be examined. Accounts with fewer assets only have to be examined once the threshold is exceeded. As soon as the account is held by a non-financial entity (NFE), the financial institution must determine whether it is an active or passive company.

In the latter case, it must, as with FATCA, determine the person who has control over the NFE (“controlling persons”).

The decision as to whether it is possible to rely on the information available from the provisions to combat money laundering (AML) and identify clients (KYC) or an additional declaration is necessary once again depends on whether the controlling person is resident in a country that has implemented the CRS, he/she must be reported.

For existing business accounts, all account relationships with more than USD 250,000 must be examined. Accounts with fewer assets only have to be examined once the threshold is exceeded. As soon as the client is identified as a reportable person, the financial institution must report the corresponding data to its tax authority. The tax authority then provides this information to the respective foreign tax authorities as part of the exchange of information. In addition to statistical data (name, address, date of birth, tax identification number), account balances and custody account values as well as transaction data (interest and dividend payments and sales proceeds) must be reported. Unlike FATCA, the CRS does not provide for a staggered introduction in this regard. Upon introduction, all data must be reported as of the initial reporting date. This increases the implementation costs considerably because the systems have to be adjusted at very short notice. Likewise, the reporting requirements under FATCA cannot be adopted unchanged.

The following chart shows in simplified form how existing and new individual and business accounts have to be identified by the financial institution.

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Unlike FATCA, the CRS does not provide for a group view. Under FATCA, the client identification and even the reporting, in certain cases, can be carried out centrally by one unit of the corporate group. This leads to economies of scale and cost savings. Under the CRS rules, such groupings are still not possible.

The documentation requirements appear to be less complex under the CRS provisions than under FATCA. While both frameworks are based heavily on the information to combat money laundering and identify clients (AML/KYC), FATCA requires more documentation in certain cases (W-8BEN, W-9).

In the area of tax withholding, the CRS has no penalty tax (30% under FATCA). Because the CRS is implemented at the national level, each participating country can issue its own penalties for non-compliance.

The legal implementation of the CRS

The CRS must be legally implemented at the national level. The Competent Authority Agreement (CAA) can be implemented among participating countries, based either on a bilateral agreement or on an existing double taxation agreement. Increasingly, however, countries are signing the OECD’s Multilateral Convention on Mutual Administrative Assistance in Tax Matters. Under this agreement, countries must provide information to one another regarding their taxpayers. It governs spontaneous exchanges, automatic exchanges and exchanges of information upon request. Switzerland became the 58th signatory to the agreement on October 9, 2013.

It should noted that the CRS not only poses a great challenge for financial institutions, but will also increase the level of complexity for tax authorities.
The latter receive massive amounts of data, which they have to bundle and securely transmit to the proper tax authorities abroad. The greater task is to process the data received from foreign tax authorities. Specifically, it must be ensured that this data is initially only used for taxation. In the second stage, it must be prepared so that it can be reviewed to determine whether taxpayers have met their declaration obligations in their own country accurately and completely. Experience with the reports under the EU savings tax has already shown that the related complexity should not be underestimated.

1.3 OECD Model Convention to Avoid Double Taxation and Tax Information Exchange Agreements

Art. 26 of the OECD Model Convention to Avoid Double Taxation governs the exchange of information needed to properly carry out a double taxation agreement (DTA) for proper tax assessment in another signatory state. The agreement with the US that is significant for Switzerland, including from the point of view of FATCA, has still not been ratified by the US.

The exchange of information provided for under the model convention often does not entail an automatic exchange of information, but rather solely an exchange upon request. It is obvious that tax authorities view this as less efficient than an automatic exchange of information.

1.4 Withholding tax agreements

As an alternative to the automatic exchange of information, Switzerland developed the concept of a final withholding tax. So far, corresponding agreements have been signed with the UK and Austria. With the final withholding tax, assets that foreign domiciled clients hold at Swiss financial institutions and the income arising from them are taxed in compliance with the tax laws of the respective country of domicile. The deducted tax amounts are transferred directly to the client’s country of domicile by the Swiss financial institution. The banks thus take over tax collection for the other signatories.

In this process, it is important that no exchange of information takes place, i.e., clients’ privacy is maintained. The withholding tax treaties govern the taxation of future income. In addition, they serve to regularize assets that were not properly taxed in the past. The tax has a compensatory effect, i.e., upon the transfer of the tax amount all of the client’s tax obligation in his/her country of domicile is considered to have been met. If the account holder is a domiciliary company or a trust or foundation, the flat-rate withholding tax treaties also provide that the beneficial owners behind them must be identified. If they are persons who are domiciled in a signatory state, the Swiss financial institution collects the compensatory tax.

Implementation of the flat-rate withholding tax agreement presents the financial institutions with very complex and thus very expensive tasks. In order to ensure that collection of the taxes takes place in compliance with the rules of the bank client’s country of domicile, banks’ information systems must be adapted to the current tax law of the other countries. This applies, for example, to the qualification of income streams. This results in questions that must be clarified, such as which income is viewed as interest or dividends, and the calculation basis, for example, for capital gains.

The flat-rate withholding tax agreements can be viewed as very efficient for Switzerland’s partner countries, as there is no expense for the collection of taxes. However, the countries do not have the tools for reviewing the tax compliance of their residents.

Once Switzerland introduces the automatic exchange of information, the concept of the final withholding tax may be obsolete. An alternative deduction will no longer make sense if the corresponding income has already been reported to the country of domicile under the AEOI and taxed there. The systems that Swiss banks set up at considerable expense to implement the final withholding tax agreement will thus be redundant.

1.5 EU savings tax

Back in 2005, the EU attempted to increase tax transparency with its savings tax directive. Since this time, cross-border interest payments to natural persons domiciled in the EU must be reported. Switzerland was integrated in the EU savings taxation system via an agreement. Under this system, however, banks were entitled to deduct tax from the interest payment in favor of the corresponding EU member state instead of reporting the income. Yet the deduction of interest by a Swiss bank in the recipient’s country of domicile had no formal compensatory effect.

At the end of March 2014, the EU formally adopted a revised directive on cross-border taxation of interest income of natural persons and thus paved the way for the introduction of the automatic exchange of information. As a result, Switzerland and the EU have halted their discussions on expanding the taxation of interest. The negotiations included a discussion of expanding the scope of the agreement to other capital income.
A new definition of the term “beneficial owner” was also intended to prevent circumvention through the interposition of corporate structures. In fact, the current iteration of the EU taxation of interest income only records interest that is paid to a natural person domiciled in the EU. The AEOI will see to it that these expansions are put into place, which is why it no longer makes sense to maintain interest taxation as a parallel system.

1.6 Implementation of the revised recommendations of the Financial Action Task Force (FATF)

Implementation of the revised recommendations of the FATF from February 2012 will lead to an adjustment and expansion of the existing system to combat money laundering in Switzerland. Specifically, the following two planned changes are significant for institutions in Switzerland:

Obligation to determine the natural persons who are beneficial owners of legal entities: Under applicable law, a financial institution may assume that the contractual party for assets deposited with it is the beneficial owner. This does not have to be explicitly documented. From now on, the beneficial owner of a business relationship will always have to be explicitly determined and documented. In addition, for contractual relationships with a non-listed legal entity, an obligation to determine the identity of the natural person who controls the legal entity is being introduced. Under the new rule, it must be determined if (i) a natural person (or several natural persons jointly) maintain a participation in the legal entity of more than 25%; and whether (ii) the legal entity is controlled by natural persons in another manner.

Expansion of the list of offenses that are considered predicates for the qualified tax offense of money laundering: Expansion of the list of offenses that are considered predicates for the qualified tax offense of money laundering: With the exception of qualified tax fraud, tax offenses (tax evasion, tax fraud) previously did not qualify as predicate offenses for money laundering. Now, “qualified tax offenses” will explicitly be considered predicate offenses for money laundering. If there is evidence of an increased risk, the financial institution must carry out further investigations. The scope of the investigations is based on the risk in relation to compliance with the client’s tax obligation. A review of the compliance with tax obligations can be dispensed with if there is an automatic exchange of information agreement with the taxpayer’s target country. If the financial institution realizes that assets offered to or already deposited with it had been or continue to be untaxed, it must: a) refuse to accept the assets and decline a new business relationship; and b) terminate the business relationship of existing clients if they are unable to prove that the assets already deposited with the financial institution have been properly taxed and that the rectification of the tax situation would result in no unreasonable disadvantages for them. These new rules are also intended to apply for Swiss clients.

These changes, which will enter into effect from 2015, will result in an enormous implementation burden for the affected institutions. Implementation will entail the following tasks:

• Rules have to be developed to define the threshold of evaded taxes per tax period of CHF 200,000. In the cross-border business, it will be necessary to call on experts with the relevant knowledge of foreign tax law to do this.

• Upon reaching the threshold of CHF 200,000 per tax period, in-depth investigations into the background and purpose of the business relationship or the transaction must be carried out. If there is information or a justified suspicion regarding a qualified tax offense, a report must be submitted to the Money Laundering Reporting Office.

Tax compliance and the obligations of financial institutions were adjusted in the Swiss federal Financial Institutions Act (FINIG), which the Federal Council submitted for consultations at the end of June 2014. According to the draft proposal (Art. 11 FINIG), when accepting assets financial institutions must review whether there is an increased risk that these assets were previously not or are currently not being taxed in violation of the tax obligation.

Assets that are of low value are exempted from the review. If there is evidence of an increased risk, the financial institution must carry out further investigations. The scope of the investigations is based on the risk in relation to compliance with the client’s tax obligation. A review of the compliance with tax obligations can be dispensed with if there is an automatic exchange of information agreement with the taxpayer’s target country. If the financial institution realizes that assets offered to or already deposited with it had been or continue to be untaxed, it must: a) refuse to accept the assets and decline a new business relationship; and b) terminate the business relationship of existing clients if they are unable to prove that the assets already deposited with the financial institution have been properly taxed and that the rectification of the tax situation would result in no unreasonable disadvantages for them. These new rules are also intended to apply for Swiss clients.
2 Implementation of tax transparency

2.1 Practical challenges
Swiss financial institutions have tackled the topic of tax transparency to varying degrees in recent months. As a recent survey of 120 financial institutions in Switzerland by EY showed, the adoption of the AEIO as a global standard has been expected, not least because there are no alternatives. However, it was also revealed that not all banks have dealt in-depth with the impact. Correspondingly, few institutions have recognized the consequences of these developments and started to make systematic preparations.

Tight project management
It is recommended that tax transparency projects begin with a risk analysis of existing clients. The strategic direction should also be determined right at the outset. On this basis, tactical measures can then be defined, for example at the level of individual countries or entire regions.

As is normal with change-the-bank projects, well orchestrated project management is essential: The relevant processes must be clearly defined from the beginning, and the corresponding tools, resources and experts must be available so that even complex problems can be analyzed and solved in a timely manner. IT and data management also play key roles. Timely tracking and aggregated reporting are essential control instruments for management and a prerequisite for measuring project progress.

It should be assumed that the AEIO will present significant challenges in terms of the identification and reporting of clients, their assets and, if applicable, their income. FATCA showed that the devil is in the details. Nor should it be forgotten that FATCA targets a single nationality, while the AEIO will likely involve clients from a wide variety of countries. This increases the complexity of implementation of the AEIO, and it will once again put IT infrastructure and processes to the test.
2.2 Measures for existing client relationships

The AEOI is forward-looking and does not govern past actions. The question of the tax compliance of existing clients must therefore be clarified outside the AEOI framework on an institution-specific basis. Implementing FATCA, withholding tax and the Department of Justice (DoJ) program has shown that this sensitive issue requires substantial time and resources. That makes it all the more important to have a structured and focused process, as the chart below shows.

1. **Identification (scope, prioritization):** In the first step, the relevant client relationships have to be classified and prioritized according to risk considerations.

   In practice, a country-specific approach is often chosen, which includes natural persons, structures and insurance wrappers (in the sense of a “look-through”). When prioritizing by country, legal and reputation risks are the main considerations, with the following factors, among others, being taken into account: qualification as a high-tax country, enforcement strength of the foreign authorities or an ongoing or planned regularization program.

2. **Pre-selection:** In this phase, the minimum requirements for proof of tax compliance are determined and the procedure defined. Through the application of pre-selection criteria and intelligent IT search functions, the initial effort can be reduced considerably for existing clients. This search is based on available information, such as contracts and forms, client history, contact entries and correspondence.

3. **Transformation:** The transformation involves investigating potential uncertainties regarding tax compliance among existing clients and obtaining missing information or evidence in cooperation with the client.

4. **Monitoring:** The review of tax compliance is not only relevant when the business relationship is opened, but also during the entire term of the business relationship. Thus, suitable measures and steps must be taken that serve to recognize potential changes among clients in due time. It is therefore likewise necessary to adjust the money laundering concept.
Impact of tax transparency initiatives on the value chain

2.3 Need for action along the value chain
If an institution is to meet the increasing tax transparency requirements, it must also review the relevant processes. A particular focus needs to be placed on the required client identification processes, necessary controls and changed tax reporting. However, a review of the value proposition and the product and service offering are also of central significance. The following overview illustrates which elements of the value chain are most affected by the tax transparency initiatives:

1. Acquisition: For new clients, the plausibility of tax compliance and the inclusion of additional criteria to identify the client (expansion of the client profile) must be reviewed. In doing so, the principles defined by the bank for opening new business relationships and for accepting new assets should serve as minimum standards. In order to meet these requirements, adjustments to the money laundering concept are necessary. Also, the downstream control processes and IT systems (CRM/Workflow) have to be updated.

2. Advising: New client needs must be taken into account. Tax considerations will become more important in the advisory process. Targeted training should convey the required sales and product expertise. Performance after taxes and fees will become the new benchmark in portfolio management and investment advice.

3. Services and products: Not all products are suitable for global distribution from a tax perspective. It is necessary to have a country-specific product offering that takes account of tax suitability as well as cross-border and sales questions.

4. Reporting: Tax transparency will lead to new or changed reporting requirements. With the introduction of the automatic exchange of information, an automated system of reporting to the responsible authorities will have to be developed. The information that will actually be included in such reporting is still unclear. However, it is foreseeable that data management and IT system requirements will increase exponentially. This will happen not least because of the growing significance of tax reporting for individual clients, prepared in accordance with the local tax provisions in each country.

5. Monitoring and complying with the rules: Increased internal and external rules require adjusted control systems. Only in this way can compliance with the rules be ensured. Process and system adjustments will therefore also be essential for monitoring purposes. Institutions also need to consider strengthening the first and second lines of.

The trend toward tax transparency will increase in the future. The implementation of the provisions of the AEIO presents Swiss institutions, particularly those with cross-border services, with significant challenges. Management in the Swiss banking industry must determine what strategic action is necessary and make a conscious decision regarding reorientation.

Strategic need for action
As a result of the significant regulatory changes, business strategies and models must be reviewed. As part of this process, the importance of tax transparency as a driver should not be underestimated. This is also revealed by the fact that the scope of action available to banks will become limited: It will only be an option for smaller banks to focus exclusively on domestic clients and ignore cross-border regulations, such as the AEOI.

The large majority of Swiss banks cannot forgo business in cross-border services. These institutions must deal with the adjustment of their strategy and business model. However, the trend toward transparency - and not only in the tax arena - also creates opportunities for those institutions that choose to change early on and execute consistently. In particular, opportunities are presented by focusing on target markets, by enhancing the value proposition with respect to these clients, and by supporting affected clients during the regularization process.

Sidebar: Strategic challenges

- Strategic: conscious strategic decisions, including decisions regarding target markets and target clients
- Clients: clear and quick focus on new client needs
- Capabilities: development of special knowledge, particularly in relation to country-specific tax laws
- Value proposition: Adjustments to the product and service offering, with a clear and differentiated focus on individual target countries
- Operations: Automation of processes and thus reduction of operational complexity
- Risk management: optimized support of client monitoring and workflow management along the value chain
The increased trend toward tax transparency affects the entire business model of Swiss banks and presents challenges for them on multiple levels. Of central significance for decision-makers is the strategic direction of the bank, based on the changed framework conditions and client needs.

At the same time, measures must be introduced to minimize the legal and reputational risks as well as any compliance risks. In doing so, the focus is on existing clients and dealing with new clients. This is because the AEOI does not offer clients a bridge to the regularization of past tax issues.

Even if Swiss banks accept the AEOI as the new reality, it is still a long and rocky road to complete implementation of the new standards.

In view of the complexity, banks cannot afford to lie back and wait.

3 Conclusion
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