

Accelerating FATCA Compliance

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The impact and challenge of FATCA

In March of 2010, the Foreign Account Tax Compliance Act (FATCA) was enacted as part of the Hiring Incentives to Restore Employment (HIRE) Act. To comply with the proposed regulations, financial institutions will have to employ enhanced due diligence procedures to identify and report on US persons who are using non-US financial accounts or non-US entities to evade US taxes.

FATCA significantly increases the amount of data that must be captured and analyzed, the types of payments that could be subject to US withholding tax, and the number of entities that could be liable for US tax on such payments. It also expands the population of entities that will have US tax information gathering, withholding, and reporting responsibilities and potential financial exposures for non-compliance. To comply with FATCA, financial institutions will need to develop additional systems capabilities and modify existing operational processes.

The penalties for non-compliance are severe. Failure by a foreign financial institution (FFI) to meet FATCA's requirements will subject the organization to a 30% withholding tax on any "withholdable payment" made to its proprietary account. Likewise, any client of a FFI or any entity client of an US financial institution (USFI) that does not provide the necessary documentation to identify them as truly non-US will also be subject to a similar 30% withholding tax. These penalties are put in place to ensure the due diligence and reporting compliance.

As the provisions of FATCA become effective across the industry, the complying financial institutions will benefit from not only compliance but also leverage newly developed synergies across processes and systems to gain efficiencies. Their clients will benefit from not having to suffer FATCA tax withholdings.

PwC's FATCA methodology

A practical, flexible approach

Recognizing the significant challenges of addressing FATCA, and the substantial penalties for non-compliance, early on PwC developed a methodology and supporting tools to help our clients achieve compliance. Broadly speaking, we divide FATCA compliance initiatives into assessment and implementation.

The process begins with a thorough organizational assessment and identification of gaps that must be filled to achieve compliance with FATCA. This results in the design and development of an implementation roadmap, accompanied by a detailed project plan and budget that describes the functional areas and people within the organization that will need to work on the implementation. This is followed by the implementation phase, which will enable the organization to become and remain compliant.

PwC's unique FATCA methodology is based on our in-depth understanding of the impacts of tax technical requirements on the day-to-day operations of complex financial institutions. The methodology is tailored to meet the requirements of individual organizations.

The approach to FATCA should be practical and flexible, leveraging existing work, systems, customer data repositories, and on-boarding processes to develop a FATCA compliance blueprint. Our phased methodology is designed to allow organizations to adapt efficiently to a regulatory environment in which guidance is still evolving. It enables financial institutions to take immediate action to address known FATCA requirements while systematically tracking the issues that require further guidance from the IRS.

We have applied this process to help a number of financial institutions address FATCA, and have refined the methodology and tools through lessons learned from the collective learning from those efforts.

FATCA tools and accelerators

PwC has invested heavily in developing proprietary tools and accelerators to help financial institutions quickly launch and implement FATCA projects. Key tools include:

FATCA traceability matrix

This robust reference tool translates FATCA requirements into about 40 process steps and 90 data elements. The tool, which is customized for each client, accelerates the assessment process by enabling organizations to quickly zero in on specific information regulators are seeking. It allows clients to react swiftly to updates in guidance as they are released, identify the workstreams affected, and modify work underway as needed. It is also used to begin developing the business requirements needed for design and implementation.

Legal entity classification and account due diligence tools

PwC has developed a rules engine, which enables rapid classification of legal entities within a financial institution, and a methodology for classifying accounts according to categories defined by the FATCA notices. These initial classifications will help to reduce the time required to achieve compliance once final regulations are released.

Educational materials

Numerous in-classroom, pre-recorded, and online training materials produced by PwC are being used by financial institutions to educate their staff and clients.

Mobilizing and organizing

Before launching into preparations for FATCA, organizations must mobilize and organize. This involves establishing a project management and governance structure and assembling a FATCA team that includes representatives throughout the organization.

Developing a project management structure

In our experience in helping large organizations to achieve FATCA compliance, we have found that a hybrid project management structure, which combines a central hub with the active participation of businesses and regions, is often the most effective. This model strikes the right balance between centralization and decentralization, and will be more cost-effective in the long run. It enables organizations to build consistency into processes, from an operational and a tax technical perspective; minimizes the potential to overlook certain areas (e.g., funds or other non-consolidating legal entities); and makes it easier to share knowledge and lessons learned.

To drive the FATCA initiative throughout the organization and ensure consistency in implementation, it's important to create a flexible global project management and governance structure. The structure should include a global program management office (PMO) and regional PMOs. We recommend that a global steering committee be established and include representatives from product, functional, and regional groups as well as the global PMO and all regional PMOs.

Key success factors:

- Early involvement of the extended team
- Well defined roles and responsibilities
- Common understanding of the organization's goals for FATCA
- Training for everyone involved in FATCA

Assembling the FATCA team

With the project management and governance structure established, the organization can begin mobilizing to address the assessment phase by assembling a FATCA team. For the success of this assessment, the team must have meaningful representation from at least eight key competencies: tax (i.e., tax technical), operations, KYC/AML compliance, on-boarding, product specialist, business, technology, and legal. Having these competencies represented on the team allows the program to develop in the most efficient and thorough manner. It can be difficult to identify the key individuals across the organization that should be included in the team, and often takes more time than expected, so it is important to begin as early as possible.

FATCA project management models

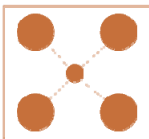
In the majority of FATCA projects, at the start of the assessment phase financial institutions select one of three models for project management: centralized, federated, or hybrid.

Centralized model



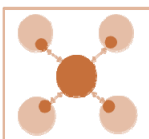
This “command and control” model is program-driven and controlled from the center. Businesses and regions have limited input and influence, and a consistent approach is rolled out across all businesses and regions. Risks: Businesses and regions are not engaged appropriately; little buy-in for the change; and differences in processes and products across businesses and regions are not considered.

Federated model



This model is program-driven from the businesses and regions and has a light-touch central hub with minimal communication between businesses and regions. Risks: an inconsistent approach rolled out across businesses and regions; lack of strategic decision-making; and no sharing of lessons learned between businesses and regions.

Hybrid model

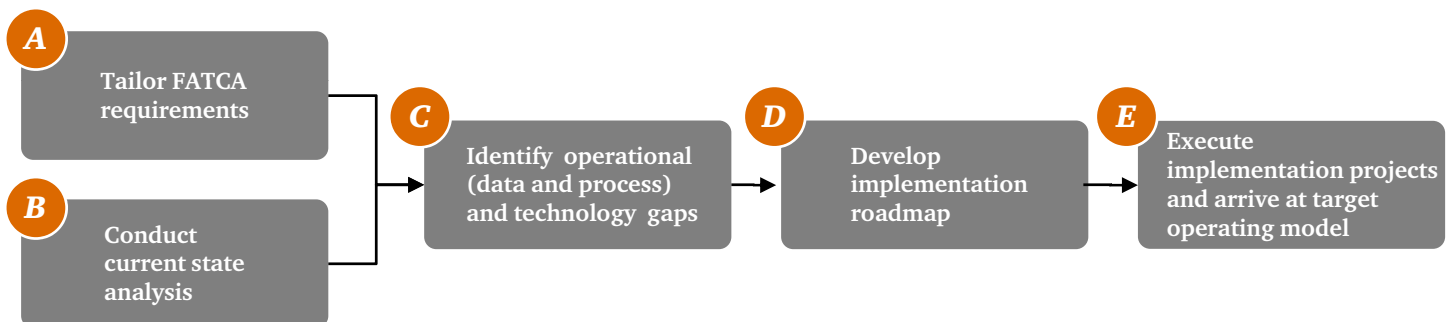


This “hub and spoke” model features a core team acting as a central hub, with spokes radiating to each business and region. The model has a clear strategy defined at the center, agreed on by representatives of each business unit. It is a collaborative approach whereby businesses are brought into the change and there is effective communication among the businesses and regions. This is often the lowest-risk model.

Assessment, design and implementation

After mobilizing and organizing, the financial institution can begin to implement the approach illustrated below to achieve FATCA compliance. The remainder of this paper describes this approach in more detail.

PwC's FATCA methodology



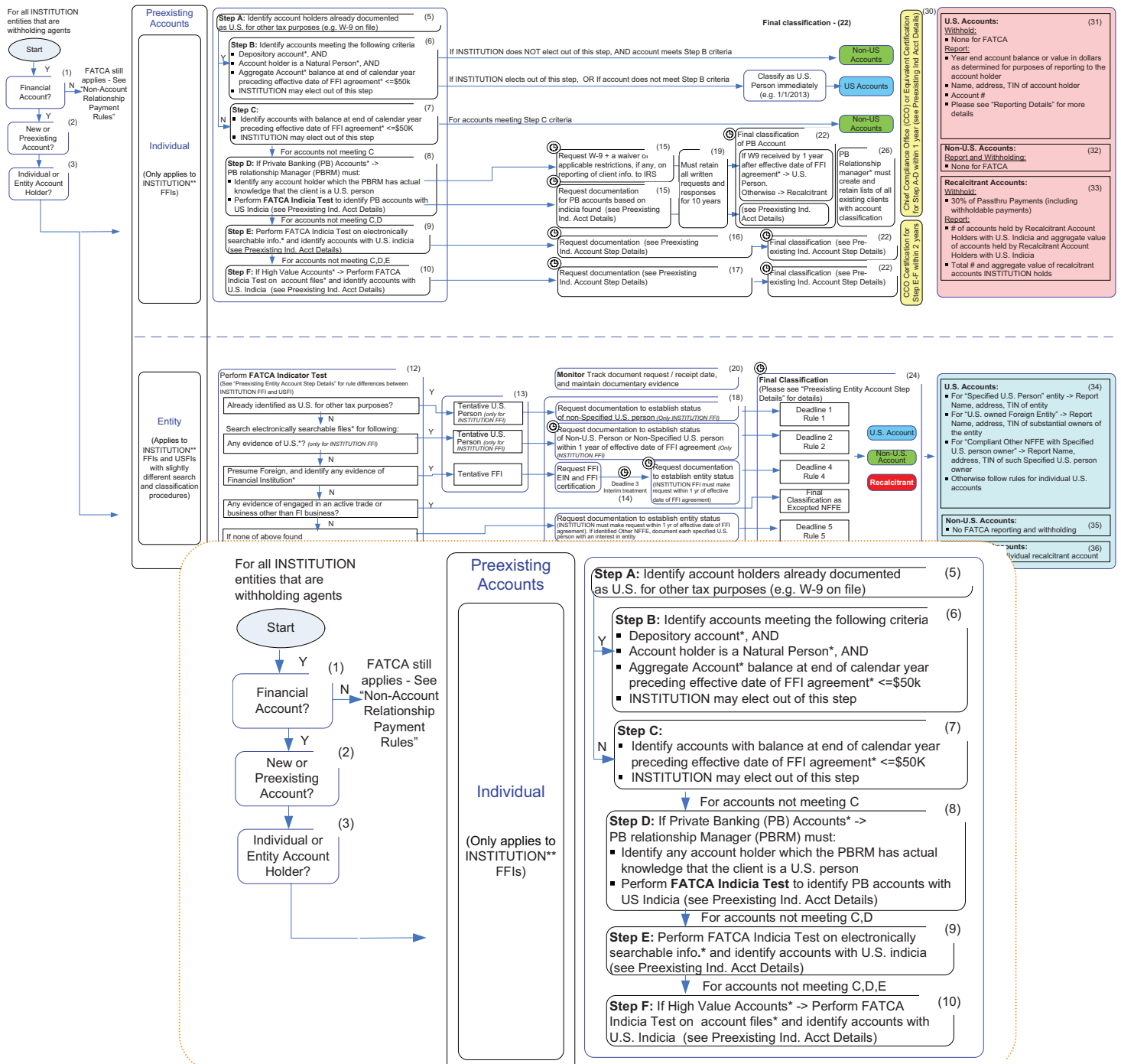


Tailor FATCA requirements

The process begins with translating the FATCA notices into requirements that apply specifically to the client's organization. To speed up the identification of these requirements, PwC has developed the "FATCA Traceability Matrix" — a proprietary tool that translates FATCA requirements into

process steps and data elements, tailored to each organization. We have further mapped this matrix to process flowcharts that address the specifics involved, with each step in the flowcharts linked to the matrix. The graphic below illustrates a portion of one process flowchart.

FATCA account holder step flow (pre-existing accounts)





Conduct current state analysis

Key success factors:

- Repeatable process for legal entity and functional analysis
- Coverage of all systems and processes that hold legal entity and client data
- Relevant fact gathering through analysis in the Assessment phase

In this step, we develop a FATCA-centric understanding of the client’s organization, examining internal operations and looking externally at the organization’s clients. We focus only on operations and technologies that are affected by FATCA, covering all relevant regions, teams, and technology systems throughout the organization.

Legal entity analysis (internal)

The objective of legal entity analysis is to review legal entity data for the organization (and in case of funds, to review the management company and fund level legal entity structures) and classify them into FATCA categories (i.e., USFI, FFI, and NFFE). The legal entities and their classifications are then mapped to their respective lines of business.

The organization must develop a classification process that is repeatable, updateable and auditable. Having a consistent process for classifying legal entities will be a particularly high priority for financial institutions that actively acquire and divest companies. PwC has developed a proprietary legal entity analysis tool that can be used to assist in analyzing all legal entities of an organization and assigning initial FATCA classifications to them.

At the conclusion of the legal entity analysis and classification process, the organization should have documented its

approach, data sources, assumptions, and rules followed to make the legal entity determination, and it should have a list of legal entity classifications aligned to their respective businesses. This list would be revisited as additional guidance is received from the IRS.

Product and transaction analysis (internal)

The legal entities that have signed a FFI agreement with the IRS will need to track and report their clients and clients’ earnings. Products and transactions related to any type of withholdable payments will need to be reviewed for their FATCA relevance.

Business unit analysis (external)

A primary objective of the business unit analysis is to determine the impact of FATCA on each of the businesses and to identify areas of risk. We do this by analyzing the organization’s operations related to customers and accounts, such as client onboarding, AML/KYC, tax withholding, and reporting. Furthermore, we analyze our clients’ data to identify which of their clients are most likely to be impacted by FATCA; the accounts of those clients; and the business units and relationship managers who own those accounts. This data analysis gives us an estimate of the number of affected clients and the effort

required for client outreach. When identifying the business units that hold client accounts, we also identify employees who will be tasked to perform any operations and system enhancements, and the client outreach activities required.

There are many ways to gather current state information from business units. We prefer to begin by identifying the key drivers within each business unit to provide the overall basis for understanding the current state. Then we layer in the FATCA- specific information needed, through interviews, working sessions, and/or questionnaires. PwC has developed the key questions which need to be answered, but we collaborate with each client organization to develop the most appropriate strategy to extract the relevant information, tailoring our approach to the client’s culture and its own delivery model.

In conducting current state analyses, we often find there is far more existing information to leverage than organizations expect. Based upon our FATCA engagement experience, typically about 30% to 40% of the necessary data is readily accessible, the next 30% lies somewhere in the organization but may not be easily accessible or available in the correct format or systems, and the final 30% needs to be produced.

	Internal analysis
Inputs	<ul style="list-style-type: none"> • Legal/Company Secretary • Legal Entity Controllers Groups (finance, accounting) • Corporate Tax • Compliance – legal entity opening/closing teams
Analytics	<ul style="list-style-type: none"> • Understand products associated with legal entities • Understand the business unit structure and linkage to legal entities • Identify General Ledger (GL) booking methodology across legal entities
Results	<ul style="list-style-type: none"> • Initial classification of legal entities as USFIs, FFIs and NFFEs • Final classification upon final FATCA regulations • Include FATCA classification as part of the legal entity creation policies and procedures

	Business unit analysis
Inputs	<ul style="list-style-type: none"> • Client on-boarding team • Compliance – AML/KYC policies and procedures • Client level tax withholding and reporting
Analytics	<ul style="list-style-type: none"> • Classify client as account holders, policy holders, or investors • Clarify firm’s role (e.g. agent, principle, investors, beneficial owners) • Understand how clients are linked/booked to: legal entities, business units, accounts • Understand Non-US Qualified Intermediary structures; branch structures
Results	<ul style="list-style-type: none"> • Categorize clients into individuals/entities, US/non-US, using FATCA Indicia • Upon final FATCA regulation, obtain FFI-EIN from entity clients • Include FATCA-specific enhancements as part of overall institution’s policies and procedures



Identify operational and technology gaps

With the current state analysis completed, the organization identifies operational (data and process) and technology gaps that must be filled in order to meet FATCA requirements. These include, for example, missing data attributes, process characteristics, and technology capabilities. Data attributes and steps are then mapped to their respective functional groups (i.e., legal entity groups).

FATCA data gap analysis

No	FATCA account holder data attribute values	Potential data attributes for system consideration	Gap identified	Level of effort	New FATCA term	Business unit 1			Region 1
						Systems	Filed names	Gap type	Systems
1	US account	Account country status	Business unit 1/ Business unit 2/ Region 1	High	Yes	System 3	Filed name to be confirmed	Attributes not available in current systems	None
2	Account address	Account address	No gap	None	No	System 1/ System 3	Account address	System holds same or similar attribute	System 6
3	Account address type (in care of, hold mail) that is the sole address shown in FFI's electronically searchable information	Indicia of (potential) US status	Business unit 2	Low	No	System 1/ System 2	Legal address and the party or the mailing address	System holds same or similar attribute	System 6
4	Account address type (US residence, US correspondence, US PO box)	Indicia of (potential) US status	Region 1	Medium	No	System 1	Permanent and mailing	System holds same or similar attribute	None
5	Indicator of whether account is a financial account	Indicator of whether account is a financial account	Business unit 1/ Business unit 2/ Region 1	Low Business unit 1	Yes	System 1	Depository roll	Requires business rule and sufficient data	None

Key success factors:

- An understanding of the magnitude of technology changes and early involvement of technology teams
- Leverage synergies by coordinating FATCA updates with in-flight technology and operational projects
- Early involvement of technology and functional teams to confirm data and process updates as indicated in the proposed regulations



Develop implementation roadmap

The results of the gap analysis are used to create a preliminary roadmap detailing the activities required for the organization to achieve FATCA compliance, including a plan to remediate existing accounts and develop new “business as usual” processes. The roadmap is key to a successful implementation as it breaks the work required into manageable, sequenced

pieces, denoting activities that can be performed simultaneously or sequentially, with dependencies identified. We recommend that the roadmap be tailored by region and business, and modified once the final FATCA guidance is issued by the IRS. It includes timelines for various activities as well as milestones to be attained during implementation.

The first step in developing the implementation roadmap is to organize activities into categories that correspond with various dimensions of FATCA. These dimensions are shown in the graphic below.

Sample FATCA dimensions

Organize into five vertical and three horizontal dimensions to maximize coverage, collaboration, and efficiency.

Preexisting Accounts	New Accounts	Withholding	Reporting	Legal Entity
<ul style="list-style-type: none"> ▪ Determination of “Private Banking” accounts ▪ Request additional documentation from account holders ▪ Establish US, Non-US, and recalcitrant classification for individual and entity accounts 	<ul style="list-style-type: none"> ▪ Enhance account opening process for individuals and entities ▪ Develop account monitoring process 	<ul style="list-style-type: none"> ▪ Enhanced withholding process ▪ Build enhanced withholding rules and logic 	<ul style="list-style-type: none"> ▪ Enhance reporting process ▪ Update preexisting reports ▪ Determine branch reporting elections 	<ul style="list-style-type: none"> ▪ Enhance entity creation process ▪ Final FFI determination ▪ FFIs enter into agreement with IRS
Technology <ul style="list-style-type: none"> ▪ Data review and investigation ▪ Data / Systems: utilized to load, store, and report FATCA attributes expeditiously ▪ Tracking mechanism for data requests to clients 				
Governance, Policy, and Compliance <ul style="list-style-type: none"> ▪ Define future state governance ▪ New policies and procedures defined and documented consistently ▪ New roles and responsibilities 				
Project Management Office <ul style="list-style-type: none"> ▪ Centralized project management ▪ Internal and Client communications ▪ Ongoing monitoring and interpretation of FATCA notices and regulations 				

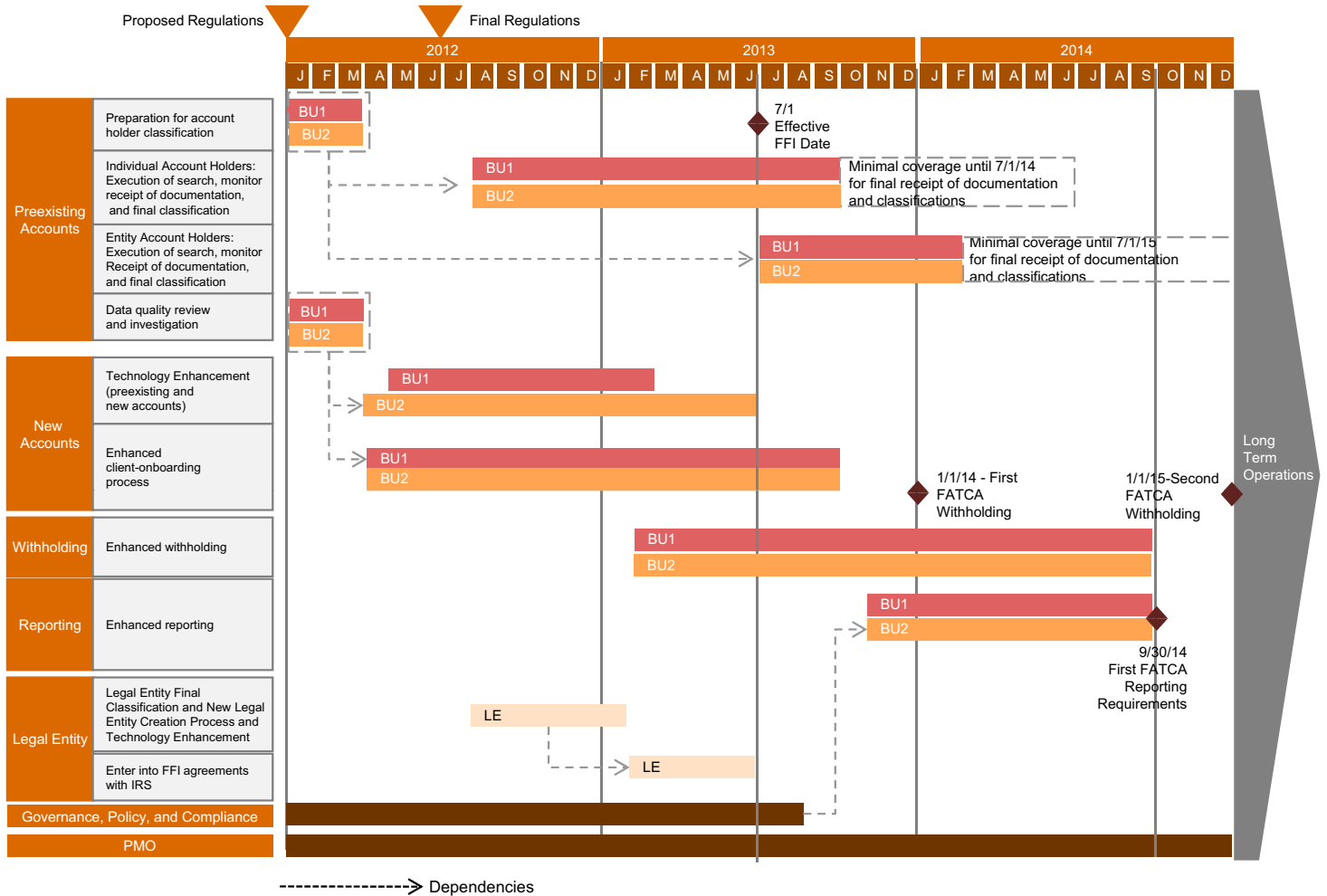
The activities are then translated into specific projects that each business unit can manage. A charter is developed for each project, detailing the work involved, timeline, dependencies on other projects, skill-sets and people required for that project, expected outcomes, sample deliverables and the budget.

The number of FATCA projects that each business unit implements will depend on where account holders reside within the organization and how data is stored and managed. For example, within an investment bank, one division trades in equities and another in foreign exchange. If clients for both divisions are housed in

a single database, only one project is needed to prepare data for account holder classification. But if client data for each division is housed separately, and different processes are used to manage the data, each division must implement its own data preparation project.

Once the implementation projects are defined, a FATCA project plan is developed showing the timelines for completion of each project.

FATCA implementation roadmap



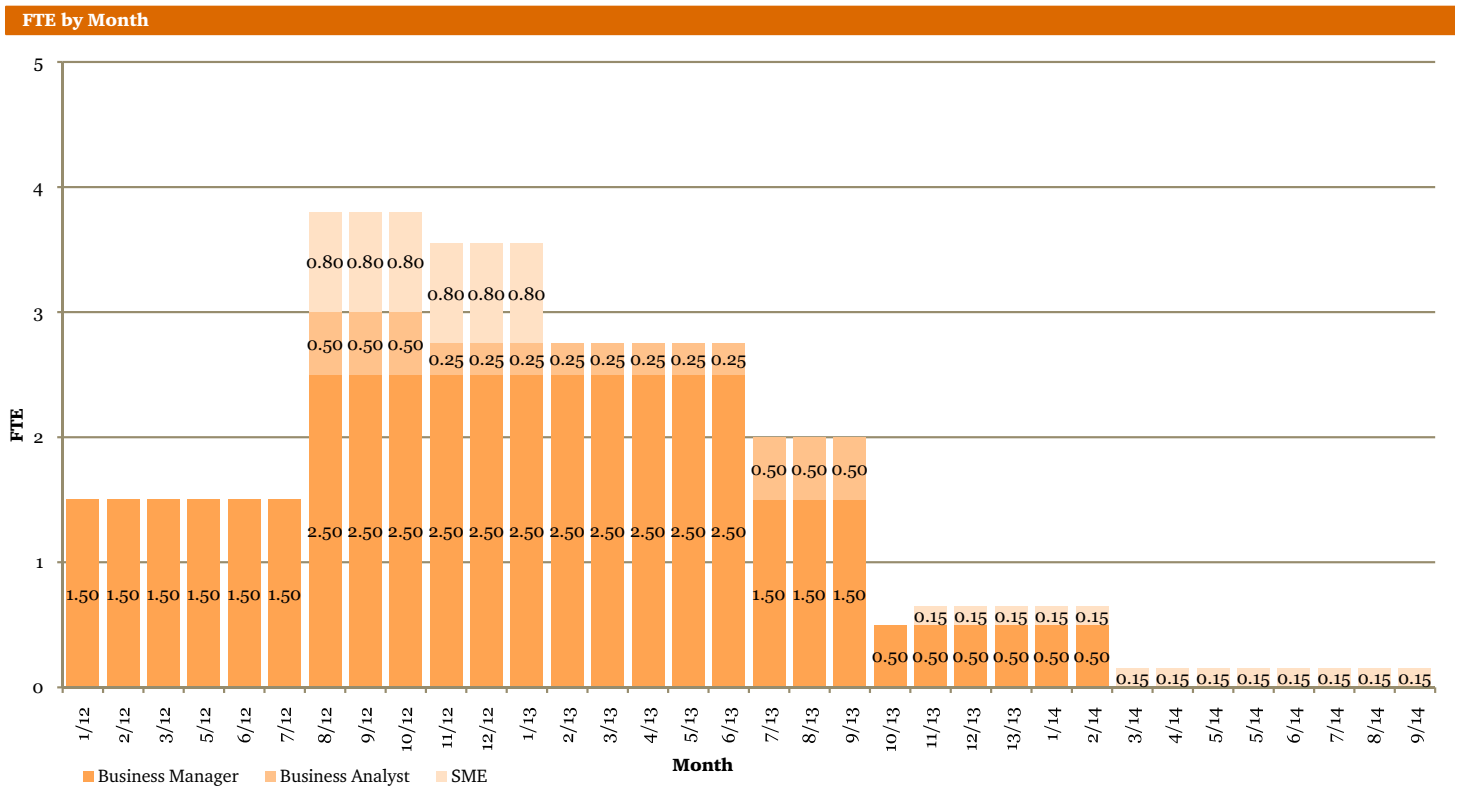
Key success factors:

- Understanding of the types of resources needed for execution
- Right sequencing and dependencies of various workstreams to optimize resource allocation
- Detailed scope and deliverables for the execution phase
- Right sequencing and dependencies of various projects to optimize resource allocation
- Planning based on FATCA deadlines and available time-span prior to the deadlines to avoid throwaway work
- Identify synergies across projects to establish standard implementation methodology across all businesses and locations

The budgeting process covers a detailed translation of the projects into the institutions functional groups and the internal and external costs associated with those groups.

Team A

FY 2012-2014 baseline resource allocation



Team A

FY 2012-2014 baseline resource allocation details

Total FTE month refers to the sum of monthly FTEs for the entire year

Resource allocation

Project	Role	Total FTE month			
		2012	2013	2014	2012-2014
		29.00	25.10	2.35	56.45
2: Individual Account Holders: Execution of search, monitor receipt of documentation, and final classification	Business Analyst	2.00	3.00	0.00	5.00
8: Enhanced reporting	SME	0.00	0.30	1.35	1.65
10: Individual Account Holders: Execution of search, monitor receipt of documentation, and final classification	Business Manager	5.00	9.00	0.00	14.00
11: Entity Account Holders: Execution of search, monitor receipt of documentation, and final classification	Business Manager	0.00	3.00	1.00	4.00
13: Technology Enhancement (pre-existing and new accounts)	Business Manager	6.00	3.00	0.00	9.00
14: Enhanced client-onboarding process	Business Manager	12.00	6.00	0.00	18.00
23: Legal Entity Final Classification and New Legal Entity Creation – Process and Technology Enhancement	SME	4.00	0.80	0.00	4.80

Key success factors:

- A good understanding of the roles and level of effort
- Resource loading across the projects to ensure optimal allocation
- Transparency across external and internal resource requirements



Execute implementation projects and arrive at target operating model

Successful execution of such a large-scale project requires effective communications across regions; identification of the right resources and their allocation to teams and tasks; an estimation of the work effort required; and budget planning. Additionally, because FATCA regulations are still being formulated the organization must assume that its implementation plan may change after final regulations have been issued.

In the process of executing the work laid out in the FATCA project plan, the organization begins to move toward a target operating model that enables ongoing compliance with FATCA. This model addresses gaps relative to FATCA along five primary areas, including:

Governance

Responsibilities may need to change in order to support FATCA compliant operations at the organizational level

People

Roles and responsibilities at the individual level that will be required to support compliance with FATCA

Technology

Systems functionality required to successfully comply with FATCA

Data

Data that must be captured, processed and stored in order to be FATCA compliant

Process

Processes and procedures that will have to be developed or enhanced to support the future state under FATCA

The target operating model will evolve throughout implementation as new guidance is issued and the proposed regulations become finalized. The end result will also depend on how organizations decide to execute implementation projects, tweaking project plans to fit existing operations while achieving FATCA compliance. In the end, each organization will develop their own unique target operating model to fit their unique structures.

Byproducts of FATCA compliance activities

In addition to achieving compliance, financial institutions will receive the following direct benefits as a result of their FATCA work efforts:

- Review of their client on-boarding strategy*
- Review of their internal legal entity opening and closing strategy*
- Review of certain aspects of the organization's 1441 processes*
- Review of client documentation strategy and compliance*
- US withholding and reporting vetting and validation*

The need for action

Proposed FATCA regulations are not expected until early 2012, and final regulations may not be issued for several months thereafter. Meanwhile, the deadline for FATCA compliance is approaching rapidly.

The scope of FATCA is enormous, the 30% withholding tax is punitive, and the time left to prepare for compliance is short—all of which reinforces the importance of taking action now. Many financial services firms have already started the process. A PwC survey of 643 firms in March 2011 found that more than half (55%) were planning to perform a current state assessment over

the next few months, and 20% had completed one already. 85% of the responders believed their FATCA compliance efforts will be significant.

FATCA is more than just a tax or technology topic. It involves governance, compliance and process changes that will impact the entire financial institution. By planning the work and starting early, financial institutions can minimize the disruption to their business operations as the FATCA deadline approaches. PwC welcomes the opportunity to meet with you to discuss our methodology and approach to help prepare you for compliance with FATCA.

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