# Coming to terms with CRS in Asia

*Despite the uncertainty around how to advise HNW clients amid the onslaught on regulations driving tax transparency, bankers need to get themselves ready via the right training, support network and infrastructure.*

The Common Reporting Standard (CRS) has become the subject of much debate in Asian wealth management. This is especially true over recent months, as advisers and professional services practitioners alike have begun to come to terms with the looming deadlines plus the difficulties in complying with them – both now and in the near future.

A quick look into at the history of this curious piece of international non-legislation, combined with the latest opinions of the wealth management industry, reveal a mixture of wishful thinking and uncertainty over the right course of action for private clients.

The blame for this is perceived by many practitioners to be on the part of international organisations, principally the OECD and also national governments, spearheaded by the US and its local departments (tax, commerce, law and so on).

This has led to a bewilderment in terms of what is actually happening.

Yet wealth managers cannot escape their responsibilities. They need the right training, support network and infrastructure to provide clients with the information and guidance that they need – increasingly urgently.

These were among the take-aways of leading wealth solutions practitioners in Hong Kong and Singapore at Hubbis thought-leadership discussions.

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## CRS CONFUSION

CRS is, in every respect, singular.

It is, known officially, the Standard for Automatic Exchange of Financial Account Information.

It came out of the OECD but its heritage is the US FATCA.

But there are three big problems, say practitioners who have to ty to figure out how to implement it. The first is that the OECD's various documents don't make clear exactly what should be reported or even reportable. Participating countries decide what they want to report.

Secondly, participating countries have to go through the rigmarole of the timetables to endorse, sign and implement.

The extreme view among industry experts of these two issues is that CRS is so hugely detailed that it is incomprehensible and does not even define its own standards of 'reporting' for all the participating countries (which includes maybe signed, maybe endorsed, maybe agreed) in this fatuous exercise of 'ticking boxes'.

In fact, there seems to be more documentation on how to avoid CRS than there is on defining how to adhere to it.

But the third big problem is the US' own FATCA. This has been widely regarded as an unwelcome intrusion in the internal financial reporting of friendly powers, and even some US politicians have objected to what they call 'extra-territoriality'.

None of this helps the wealth management business, nor its clients.

There has been speculation that the new US administration will cast a doubtful eye on FATCA. But that seems unlikely to have any impact. After all, millions of pages of data are already in the system.

## FACING UP TO REALITY

Whatever these theoretical considerations and practical impracticalities, it remains the fact that private banks, other financial institutions and advisers, lawyers, accountants – in fact, all industry players – are all cautious in their considered confusion. The consensus is clearly that CRS is a game changer. The reality, say practitioners, is that everybody must now start to understand what it means for them and what actions they can take to mitigate the effects. As a result, the best thing is to help their clients get ready.

From a client's perspective, however, major concerns include privacy and the possibility of cyber attack.

Private companies are not immune from sophisticated cyber criminals, but the record of public tax authorities does not inspire confidence either. Further, complicated wealth structures may throw up different reporting which may not necessarily be comprehensible to the different authorities.

On the other side of the client relationship are charges, responsibility and liability – advice and structures which can be so complicated that they must be paid for. These will require flexibility.

The current environment may mean a single adviser with a team of specialists, or a chief adviser coordinating third-parties from different disciplines.

The biggest – and perhaps most urgent – need seems to be for information, education and training so that relationship managers (RMs) can do their basic job. They must first have the conceptual understanding of CRS, and then know when to transfer the detailed questions to the appropriate professional.

Yet the process is more complicated than that. The RM must ensure that the general structure of the customer portfolio addresses their investment objectives. RMs must also keep an eye on how it will look to outsiders, which outsiders to ask – accounting, legal, tax and so on – and then bring back their recommendations (which might also be advice on legal obligations) into the portfolio strategy. That added work will certainly mean a cost for the private bank or adviser, and might justify a separate fee.

At the moment, such costs get absorbed in the wealth management process. But there is a growing feeling among industry players that the advisory space should have its own fee structure. And then there are fees for the other professionals in the chain.

The second-level question is the duplication of effort. Private bankers have their compliance sheets but the professional outsiders must also do their tailored KYC and AML checks too. ■

### *CRS in the making*

*May 2014 marked the birth of CRS, when 47 countries (34 in the OECD plus others) thought that CRS would be a good idea to share automatically, and not as previously, upon individual request, certain information on financial assets and also other current movements such as income. The carnival continued into September 2014 when the G20 group of nations decided to implement CRS and by 2015 the Convention on Mutual Administration in Tax Matters (the OECD's sort of legal basis in which you should refer to Article 6).*

*The important focus is on visible financial assets and, not yet at least, on property, art or commodity assets such as precious metals or stones.*