

Comprehensive FATCA Compliance



For quite a while now, FATCA (Foreign Accounts Tax Compliance Act) has remained the talk of the town in the banking industry—about how it will change the regulation landscape as we know it. FATCA has come into force from July 1, 2014 and non-compliance will result in a hefty 30% tax withholding of income generated in the USA. FATCA requires that any financial institution, which is not based in the United States, report to the IRS about any US entity with whom they have a direct or indirect connection.

This will prove to be a severe burden for financial institutions that have an agreement with the IRS, requiring a revamp of existing KYC processes and technology. This will also cascade down to all transactions and reporting as well as remediating of pre-existing accounts under FATCA. A comprehensive compliance solution that verifies customer information and enables adherence to every requirement that FATCA imposes, can help financial institutions deal with this landmark legislation better. The FATCA compliance solution from TCS BaNCS can help identify non-compliance easily, automate compliance processes and meet its stringent requirements.

FATCA—How it can change the rules of the game

FATCA compliance presents significant operational challenges for financial institutions, since its impact spans across business operations, and across all processes and systems from client on-boarding to regulatory reporting, for example:

Identification of US Indicia: One of the key challenges is the ability to accurately identify customers as “US accounts” under FATCA. Once identified as an US account, the user would need to know which rule to apply as prescribed by law. Participating Foreign Financial Institutions (FFIs) will be required to do more than identifying and reporting about their US accounts.

Data aggregation: An individual/entity may have several accounts with a financial organization, and each of these entities might be related to a different type of product and might spread across multiple branches, subsidiaries and business units.

Data mapping and transformation: Data mapping and transformation to IRS-defined reporting data structures is another key challenge. A detailed analysis of each account is essential to ensure that only relevant customers are reported about.

Analytics and workflow: Financial institutions are required to maintain customer classifications as defined by the Act and a repository of supporting documents, including tracking mechanisms such as continuous due diligence.

Reporting: Reports are generated for each FATCA reportable account in the format specified by the IRS or other tax authorities. The reporting requirement will be phased in gradually between 2014 and 2017.

Failure to comply with FATCA could result in severe penalties, up to a 30% withholding of tax on US-source income.

Withholding of tax: FATCA requires punitive tax withholding of up to 30% on certain payments made by a non-compliant account holder. It also requires 30% withholding on payments to NFFEs/FFIs that fail to either disclose substantial U.S. owners or certify that no substantial U.S. owners exist.

Achieve quick compliance with FATCA

The FATCA compliance solution from TCS BaNCS is a comprehensive application enabling financial institutions to verify their customer base and implement due diligence processes to identify foreign accounts falling under the purview of the Act, based on pre-defined US Indicia identifiers.

This solution can handle:

- All reporting requirements under FATCA
- Profiling and categorization of customers
- Classification according to US Indicia
- FATCA compliance checks and report to IRS/local regulatory

The solution employs a rules-engine concept, which provides flexibility to business users, allowing customers to be profiled into different logical groups such as pre-existing US Individuals, New US Individuals, High Income US Individuals and Passive NFFE (Non-Financial Foreign Entity). It also provides an efficient workflow management for analysis.

The FATCA compliance solution from TCS BaNCS has an open and flexible architecture, which allows implementation of either the comprehensive solution or only relevant functional modules to suit an organization's requirements.

Simplify FATCA compliance with TCS BaNCS

The FATCA compliance solution from TCS BaNCS comes with an array of features to help financial institutions make complying with stringent IRS requirement easier:

Identify non-compliance quickly: Extensive coverage of various FATCA verification techniques helps identify individuals, FFIs and NFFEs that come under FATCA scrutiny process. The solution's rules-based approach is configurable and can identify recalcitrant individuals/entities quickly. It follows this approach in conjunction with other mechanisms to detect and report FATCA non-compliant activity within a secure environment.

Generate quick alerts for non-compliance:

The solution generates notifications when an individual/legal entity is found to be FATCA non-compliant. Different logical groups are created by forming complex expressions for each one of them. The entities are classified among those groups and verified for the specifications of that particular group, and this process is called 'FATCA verification.'

Perform easy change management:

The solution lets customers study the details of each notification and analyze them to come to a logical conclusion using the workflow module. Each notification allows the user to either change the FATCA status of the respective entity, or the system automatically changes when the required details/documents are submitted to cure Indicia formed against the customer.

Enable intelligent detection: It also presents a quick profiling technique with user friendly GUI to determine whether the given entity is related to US or not. In this way, the various parameters for the US Indicia check are handled successfully. The solution has an in-built workflow engine, which does end-to-end workflow processing and ensures that notifications generated are closed with a logical end.

Enable end-to-end automation for compliance: All the relevant customer data such as end-of-year balance, address details, documents submitted at the time of on-boarding and number of beneficiaries, shareholders or power of attorney details are entered into the system from various other source systems. Data passed through these batch processes and pre-defined thresholds are validated against the loaded data. Profiling and verification of customers are done sequentially to generate notifications if any deviation is found. Data from various systems is mapped and consolidated in the system, using flexible integration methods (The FATCA solution can be integrated with any core banking solution) for reporting, and withholding is done at the source system based on the FATCA status provided.

The diagram below illustrates the high level technical architecture of the solution:

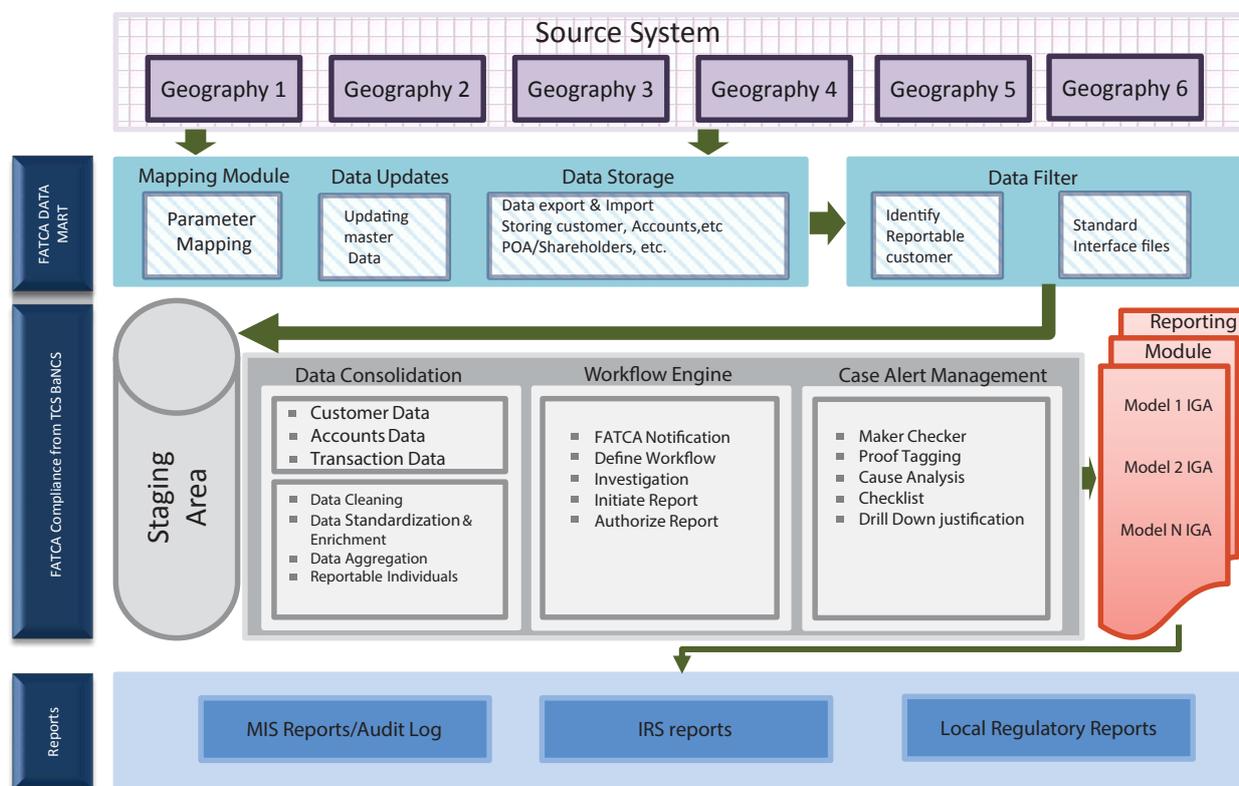


Figure 1: An overview of the FATCA Compliance solution

A flexible, integrated compliance solution

Modular approach: The solution has a modular architecture, which allows implementation of either the comprehensive solution or only relevant functional modules to suit an organization's requirements. The business modules of the solution are "Case Alert Management" and "Configuration", which in turn have sub-modules such as "Indicia Check", "FATCA Groups", "FATCA Rules" and "FATCA Verification". The core modules provide the functionality common to each module – system, security and administration & reports and dashboards. The flexible architecture enables each component to work as a standalone application.

Ongoing compliance: The compliance solution ensures adherence to existing FATCA regulation and has been designed in an enhancement framework that allows for easy integration with future regulations.

Flexible: The solution employs a rules-engine concept, offering a high degree of flexibility to the user. Rules engine components are highly parametrized, resulting in even a non-technical user being able to create FATCA rules with ease.

It has flexible workflows for user roles, business units and locations, offering a simplified, unique view of the customer.

Quick integration: The solution architecture provides well-defined, easy-to-use, standard published APIs to enable quick integration of existing applications or third-party products. The standardization of adapter requirements enables faster deployment schedules, rapid integration with legacy systems and third-party applications, increased IT productivity and accelerated time-to-value for business initiatives. The solution supports integration in both real-time as well as batch mode.

Monitoring and investigation capabilities: The FATCA compliance solution from TCS BaNCS has a built-in workflow module, which is tightly integrated with the alert and case management module, supporting centralized, decentralized and hybrid modes of workflow. It provides comprehensive tools of support for the notification investigation by FATCA compliance officers. It has multiple dashboards and customized reports for MIS and IRS reporting needs, ensuring efficient administration and management control. The "Case Management" module provides comprehensive case management capabilities such as tracking of each and every notification generated, notification history, audit requirements and internal and external reporting.

Why TCS BaNCS

The TCS BaNCS product suite for banking, capital markets and insurance enables business transformation in financial services. Increasing operational efficiency and helping financial institutions stay agile; our solutions deliver a competitive edge with unmatched certainty! We aspire to be better than established benchmarks, which is why we have embedded an Alpha (“ α ”), representing superior returns delivered to our customers, consciously and prominently within our brand. The plug and play, component-based product suite consistently turns in impressive benchmark results, with a fine-tuned, highly scalable technology architecture that supports financial institutions with the highest capacities for transaction volumes, peak transactions per second, and transaction history size. With such a track record, it is only natural that the TCS BaNCS product suite can help financial institutions of any size gain a distinct, competitive edge.

For more information, visit: www.tcs.com/bancs

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TCS Financial Solutions is a strategic business unit of Tata Consultancy Services. Dedicated to providing business solutions to financial institutions globally, TCS Financial Solutions has compiled a comprehensive product portfolio under the brand name of TCS BaNCS. The TCS BaNCS universal financial solution is designed to help financial services institutions enhance end customer experience, enabling them to embrace open and innovative technologies that embody true digital customer engagement. Deployed at more than 450 installations worldwide, it is the largest collection of components, enterprise and consumer apps for the financial industry made available through the cloud, helping firms become more agile and intelligent by leveraging the power of new and extended ecosystems.

To know more about TCS BaNCS, please visit: <http://sites.tcs.com/tcsbancs/>
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