Data Governance for FATCA
Supporting FATCA compliance

The Foreign Account Tax Compliance Act (FATCA) is a new set of regulations from the US authorities that seeks to ensure that US individuals report all income earned outside the US. It will affect financial institutions that interact with US clients and US markets. However, it will also affect multinational non-financial enterprises that may have payment interactions with US clients. Basically, a 30% withholding tax will be imposed on certain US source payments made to foreign enterprises that are unable to satisfactorily identify US investors.

Detailed aspects of FATCA remain to be finalized, and, as with much regulation, future changes can be expected. However, the prospect of such a high withholding tax requires that enterprises start planning for FATCA now. There will be a significant impact for data management.

Risk Intelligence and Data Surveillance

At the core of the FATCA issue is the need to identify whether individual or corporate accountholders are domiciled in the US (are "US persons"). In most organizations, existing customer and account onboarding practices are typically not set up to do this to the extent required by FATCA. The most practical approach is for organizations to reuse the data they have about their clients to find the answers required by FATCA - or at least perform a good initial triage prior to contacting clients. The appropriate data is usually dispersed in many different data stores, and is often difficult to interpret.

Collibra provides a platform from which data surveillance can be carried out to gather the risk intelligence required for FATCA.

"For each entity account holder treated as a foreign entity after step 1, the USFI will determine whether the foreign entity's name (or other information readily available to the USFI in its electronically searchable files regarding the entity account holder) clearly indicates that the foreign entity is an FFI. If so, the USFI will tentatively classify the entity as an FFI." Revenue Notice 2010-602, IRS.

To get reliable answers for FATCA it is necessary to know where the relevant data is, what it means, what data quality issues exist in it, and who is responsible for it. Clearly, it would be incredibly inefficient and unreliable if each analyst had to gather this knowledge for each test they ran for each account holder. Collibra provides a centralized platform in which such knowledge can be stored and made available for reuse. With its easily accessible, business facing functionality, subject matter experts can populate Collibra with information about FATCA-relevant data elements scattered around the enterprise's data landscape. This information is augmented as more work is done with the data, and more facts are understood about it.
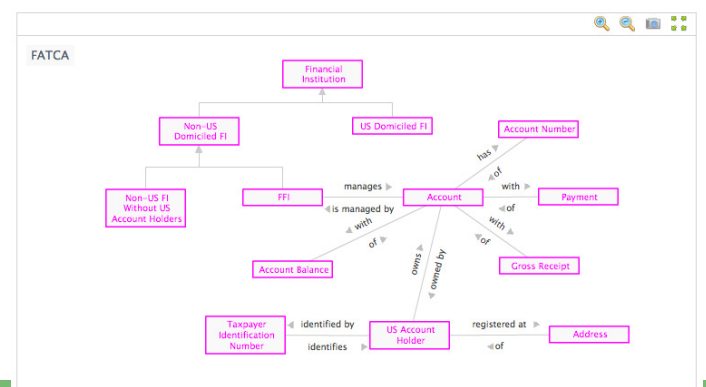
Collibra implements a strong governance model that is flexible and configurable to suit the needs of the enterprise and FATCA requirements. Analysts can then leverage this knowledge as they apply the complex tests and rules to identify the US persons among the general populations of accountholders. The tests and rules can be rerun, providing for true data surveillance to consistently meet FATCA needs.

Managing FATCA Requirements

FATCA introduces an array of new concepts, definitions, and rules. These need to be clearly understood, translated into the enterprise's own "data language" and consistently applied. The powerful glossary features of Collibra work just as well for FATCA concepts as they do for understanding the relevant enterprise data elements.

Like many regulations, FATCA includes taxonomies, such as Type of Account. Taxonomies are often misunderstood and poorly applied except by deep subject matter experts. This can result in costly misclassification, which will attract the attention of regulators if it is easily recognizable in regulatory reporting.

"For financial accounts that are opened at a USFI on or after January 1, 2013 and are held by persons other than individuals (new USFI accounts held by foreign entities), a USFI will be required to determine whether such accounts are to be treated as U.S. accounts, accounts of participating FFIs, accounts of non-participating FFIs, accounts of deemed-compliant FFIs, entities described in section 1471(f), accounts of excepted NFFEs, or accounts of other NFFEs..." Revenue Notice 2010-602, IRS.

Collibra has extensive functionality for managing taxonomies. Its strong governance model allows for the configuration of roles and responsibilities for taxonomies, including RACI matrices. This raises the extent and quality of the knowledge maintained for taxonomies, and makes the taxonomies more widely and reliably applied. Guesswork is eliminated for stakeholders, and tasks no longer require as much participation by deep subject matter experts.

Additionally, in managing the concepts of FATCA itself, Collibra is ideally placed to develop and store the tests and rules that identify US persons. While it is difficult to devise these tests for individuals, it is even more difficult to devise them for legal entities. Without an environment such as Collibra, the relationship between rules, concepts, and data can easily be lost, and governance of rules can be obscured so that it becomes unclear which rules exist for what purposes and when they need to be applied. Again, the governance capabilities of Collibra provide strong support for this area of FATCA.

"However, other contracts such as life insurance ...or annuity contracts typically combine insurance protection with an investment component. Thus, such cash value insurance contracts or annuity contracts may present the risk of U.S. tax evasion that chapter 4 is designed to prevent. Treasury and the IRS request comments with respect to the appropriate treatment under chapter 4 of entities that issue cash value insurance contracts, annuity contracts, or similar arrangements, and with respect to the appropriate definition of cash value insurance contracts, annuity contracts and similar arrangements for this purpose." Revenue Notice 2010-602, IRS.

Managing FATCA Requirements

FATCA requires that enterprises who are subject to it proactively search their "electronically searchable information" to find if accountholders are US persons. If an enterprise is to comply with FATCA it must be able to prove this compliance by showing what has been searched (in terms of data) and how the searches were conducted (in terms of tests and rules applied to the data).

The functionality of Collibra not only directly supports the compliance with FATCA, but also provides a means of proving that compliance has been achieved. The business glossary, governance processes, rule definitions and RACI matrices can all be inspected by regulators (and auditors) who might be seeking to assess proof of compliance.

"..the FFI shall determine whether the electronically searchable information maintained by the FFI and associated with those accounts or account holders... includes any of the following U.S. indicia.. For this purpose, "electronically searchable information" refers to information that an FFI maintains in its tax reporting files, or customer master files or similar files, that is stored in the form of an electronic database against which standard queries in programming languages, such as Structured Query Language, may be used. Customer master files include an FFI's primary files for maintaining account holder information, such as information used for contacting account holders and for satisfying AML/KYC requirements. Information, data, or files are not electronically searchable merely because they are stored in an image retrieval system (such as .pdf files or scanned documents).:" Revenue Notice 2011-343, IRS.
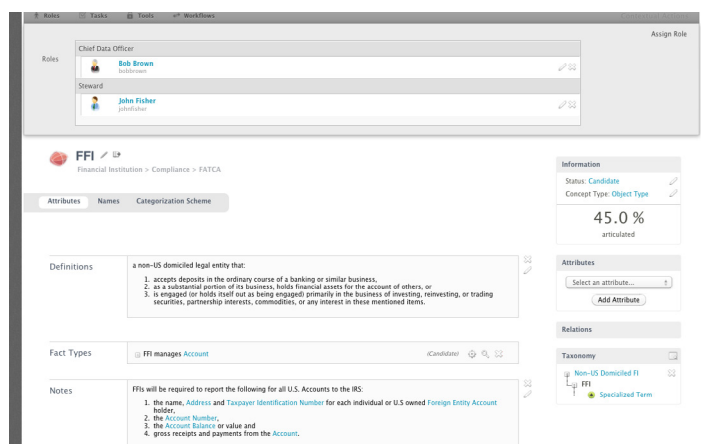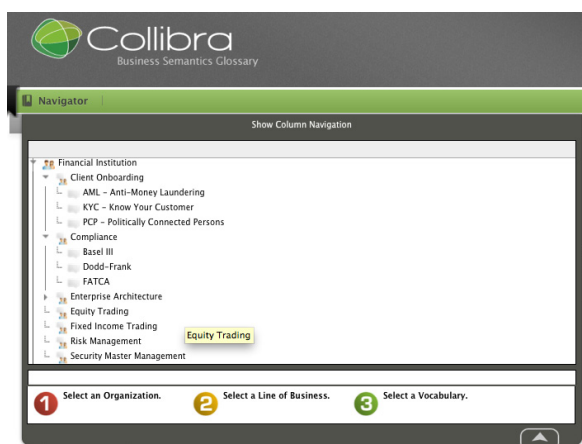
Collibra, FATCA, and the True Role of Master Data Management

It is easy to view FATCA as another costly instance in a series of new financial regulations that have appeared over the past decade. However, it is also possible to view FATCA in a positive way from the perspective of mature Master Data Management (MDM). For a long time, MDM has been viewed as an IT task that is simply to collect data with sufficient quality to execute transactions, such as trades, as quickly as possible. This perspective is gradually giving ground to a new paradigm where MDM is viewed as a capability that allows the enterprise to understand how it interacts with its environment - and particularly to understand its customers.

Enterprises that implement the new paradigm will have a significant competitive advantage, and, almost as a byproduct, will find it easier to comply with FATCA. At the heart of the new paradigm is the ability to understand and repurpose data. Collibra presents a solution with a rich set of functionality that goes far beyond the regulatory needs of FATCA and helps enterprises to unleash the full value of MDM.

About Collibra

Collibra is a Data Governance software company bringing Business and IT together to govern data as an enterprise asset.

Collibra's Business Semantics Glossary supports you in launching or maturing your Data Governance program.

Collibra provides a unique platform that allows the business to take charge of the data in their organization.

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