On July 21, the Organisation for Economic Co-operation and Development (OECD) published its Standard for Automatic Exchange of Financial Account Information in Tax Matters. The report contains the OECD’s model competent authority agreement (CAA), the common standard on reporting and due diligence for financial account information (CRS) and commentaries on both the CAA and CRS. The report follows the G20 meeting of the Finance Ministers and Central Bank Governors on April 19, 2013, where the members endorsed automatic exchange as the expected new standard. On May 23, 2013, the European Council agreed to prioritize the efforts to extend automatic exchange at the EU and global levels by May 2014. More than 60 jurisdictions had committed to swiftly implement the CRS into domestic law with 44 of those jurisdictions further agreeing to a common timetable.

The OECD’s intention is to create a core set of common standards for information gathering, due diligence standards and the exchange of such relevant information that would apply to those financial institutions operating in jurisdictions that implement the CAA. In creating the standards, the OECD drew upon the experience gained through the intergovernmental approach to implementing the Foreign
Account Tax Compliance Act (FATCA). While the OECD hopes that a commonality in approach will limit arbitrage opportunities for tax evaders, each jurisdiction will still need to implement the CAA and CRS into domestic law, which increases the chances that variations amongst the jurisdictions will occur.

Financial institutions servicing the offshore asset management industry will be familiar with US FATCA. However, they will soon need to turn their attention to the OECD’s new standards if the jurisdictions in which they operate adopt these standards. Care will need to be taken to understand the variations between US FATCA, the CAA/CRS and, for those companies where it is relevant, UK FATCA.

While some time remains before these new standards will be implemented into local law, the OECD’s standards highlight the next phase in the evolutionary stage of combating tax evasion outside of the United States while continuing to increase the level of complexity and costs of compliance for those operating within the offshore financial centers. This development should be seen as being a further step towards converting the aspiration of tax transparency into reality.

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