

**THE EXCHANGE OF INFORMATION UNIT**



**Turks and Caicos Islands**

**GUIDANCE NOTES ON THE INTERNATIONAL TAX COMPLIANCE  
REQUIREMENTS OF THE LEGISLATION IMPLEMENTING THE  
INTERGOVERNMENTAL AGREEMENTS BETWEEN THE TURKS AND  
CAICOS ISLANDS AND THE UNITED STATES OF AMERICA AND THE  
UNITED KINGDOM**

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These Guidance Notes are issued under the Tax Information Exchange (Convention) On Mutual Administrative Assistance In Tax Matters) Order 2014 by the Exchange of Information Unit as the Competent Authority.

It should be noted that the Guidance Notes do not have the force of law. If you are in any doubt as to your obligations under the law you should seek independent professional advice.

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## 1. BACKGROUND

### 1.1. General

The Foreign Account Tax Compliance Act (**FATCA**) was introduced by the United States (US) in 2010 as part of the Hiring Incentives to Restore Employment (**HIRE**) Act with the purpose of reducing tax evasion by their citizens. FATCA requires financial institutions outside the US to report information on financial accounts held by their US customers to the Internal Revenue Service (**IRS**). These requirements are contained in the relevant US Treasury Regulations (US Regulations). The information to be reported by foreign financial institutions is equivalent in substance to that required to be reported by US citizens on their US tax returns.

If financial institutions do not comply with the US Regulations, a 30% withholding tax is imposed on the US source income of that financial institution, this is done on both its own US investments and those held on behalf of its customers. Financial institutions are also required to close accounts where their US customers do not provide the requisite information to be collected by the financial institution.

The US recognized that in some jurisdictions there would be a need for the drafting and enactment of new legislation to give effect to FATCA. The implementation of FATCA would also present some practical difficulties for financial institutions in regards to compliance. In light of the foregoing two model Intergovernmental Agreements (**IGA**) (**Model I and Model II IGAs**) were developed to overcome legal issues and to reduce some of the burden on the financial institutions.

On November 26, 2013 the Government of the Turks & Caicos Islands (TCI) and the United Kingdom (UK) entered into an Agreement to Improve International Tax Compliance (**the UK Agreement or UK IGA**), which was domesticated on 7<sup>th</sup> February, 2014 with the Tax Information (Exchange and Mutual Administrative Assistance)(Convention On Mutual Administrative Assistance In Tax Matters) Order 2014. On 1 December 2014, the Government of the TCI and the US Government signed an Agreement to improve international tax compliance and to implement FATCA (**US Agreement or US IGA**), which was domesticated by Order on 30<sup>th</sup> January 2015. The US IGA is based on Model 1B which is the non-reciprocal model in that information will only be supplied to the US. As a result, the withholding tax and account closure requirements will not apply to TCI Financial Institutions; this will only apply where there are unresolved instances of significant non-compliance by the financial institution.

Under the terms of the US FATCA and UK IGA's (hereinafter referred to as "**the Agreements**"), Financial Institutions based in the TCI will be required to provide the TCI Exchange of Information Unit with the information required. The Exchange of Information Unit will then forward that information onto the Competent Authority in the US or the UK.

The Agreements have the same objective in terms of delivering automatic exchange of similar information in respect of the same time periods. In addition, a Common Reporting Standard has been developed by the Organisation for Economic Co-operation and Development (**OECD**) based on the same principles, which the Turks & Caicos Islands has committed to implementing (along with the UK, the Overseas Territories and Crown Dependencies and multiple other jurisdictions as members of the early adopters group). These Guidance Notes along with the TCI Regulations have been prepared to reflect these overarching principles, abiding by the spirit of

the Agreements and developing international standards.

## **1.2. Purpose of these Guidance Notes**

These Guidance Notes are issued by the Government of the TCI with respect to the IGA's entered into between the Turks & Caicos Islands, the United States of America and the United Kingdom and are intended to provide practical assistance to entities, their directors and other officers, their advisers and the Competent Authority who deals with entities affected by the Agreements and the TCI Legislation. This document does not form part of the TCI Legislation and does not have the force of law. If there are any queries in regards to your obligations under the TCI Legislation professional advice should be sought.

The Agreements have the same objective in terms of delivering automatic exchange of similar information in respect of the same time periods. In addition, a Common Reporting Standard is being developed based on the same principles. These Guidance Notes and the TCI Legislation have been prepared to deliver these overarching principles, abiding by the spirit of the Agreements and developing international standards. As such in delivering the reporting obligations, these Guidance Notes also recognize the burden of reporting for affected businesses.

A Financial Institution must apply the TCI Legislation in force at the time with reference to these Guidance Notes.

These Guidance Notes are relevant and apply to any person affected by the Agreements and the TCI Legislation.

Since the Agreements are based on the same model, many of the provisions of these Guidance Notes cover both the US Agreement and the UK Agreement. Where applicable, aspects which differ between the Agreements are noted. In addition, Appendix 3 sets out key provisions which are different in the UK Agreement. Any party affected by the UK Agreement should review the main body of these Guidance Notes together with Appendix 3.

## **1.3 Scope of the Agreements**

The Agreements and the TCI Legislation will be applicable to all TCI Financial Institutions duly registered in the Islands.

All Financial Institutions that maintain Financial Accounts will be required to provide certain information to the competent authorities under FATCA. The information to be supplied will be contingent on the number of factors including but not exclusive to (1) whether an account holder is a Specified Person (a citizen of the US or the UK) and (2) the value and nature of the Financial Account. In addition to reporting information on Reportable Accounts, there is also the requirement under the terms of the US Agreement only, that, Financial Institutions may need to report payments made to a Non-Participating Financial Institution (**NPFI**).

Any entity that is not a Financial Institution will be deemed a Non-Financial Foreign Entity (**NFFE**) for the purposes of FATCA. A NFFE under the Agreements is not required to provide the same information as duly registered Financial Institutions. There is a duty however, to (1) confirm its status and (2) provide the details of the controlling party (s) if requested to do so by a Financial Institution. A Financial Institution may have reporting obligations in respect of Financial Accounts it maintains for a Passive NFFE.

These Guidance Notes will assist entities in answering the following:

- Am I a Financial Institution?
- Do I maintain Financial Accounts?
- Do I need to register with the IRS and, if so, by when and how?
- Do I need to report any information and, if so, what information, when and how?

#### **1.4. Interaction with US Regulations and other IGAs**

The TCI Regulations and these Guidance Notes seek to clarify any areas of uncertainty within the Agreements. While the US Regulations are US legislation, there is some cross over into the UK Agreement as set out in that Agreement.

In line with Article 4 paragraph 7 of the US IGA and Article 1 paragraph 3 of the UK IGA, the Government of the TCI permits Financial Institutions to use a definition in the relevant US Regulations in lieu of a corresponding definition in the IGA, provided that such application would not frustrate the purposes of the Agreement. As a result, both the IGA definition and the definition detailed in the Regulations, for certain elements, have been included in these Guidance Notes. Financial Institutions are not required to seek approval from the Exchange of Information Unit to apply this approach.

A Financial Institution should not be at a disadvantage from applying the TCI Legislation implementing the Agreements, as compared to the position that they would have been in if applying the US Regulations. In certain circumstances, provisions in other Intergovernmental Agreements may also result in a change to the application of the Agreements.

A Financial Institution must apply the TCI Legislation in force at the time with reference to these Guidance Notes.

If the US authorities subsequently amend the underlying US Regulations to introduce additional or broader exemptions, the Government of the Turks & Caicos Islands will incorporate these changes into the TCI Legislation or Guidance Notes subject to the approval of the IRS. Any updates in this regard will be published and made available to the public.

The definitions set out in the US Agreement apply in place of those in the US Regulations and differ in some cases to those in the US Regulations. The US Agreement states that the TCI may permit TCI Financial Institutions to apply definitions in the US Regulations in place of those in the Agreement provided that doing so would not frustrate the purpose of the US Agreement.

#### **1.5. The role of the Turks and Caicos Islands Competent Authority**

The Exchange of Information Unit has been designated as the Competent Authority for the purpose of the Agreements by the Permanent Secretary, Finance.

The Exchange of Information Unit will receive the required information and will in turn pass that information onto the IRS in respect of the United States and to Her Majesty's Revenue & Customs (**HMRC**) in regards of the United Kingdom.

The Exchange of Information Unit will not audit the information provided by the Financial Institutions. It is the responsibility of each Financial Institution to provide the correct information in the correct format to the Exchange of Information Unit.

The Exchange of Information Unit will monitor compliance by Financial Institutions with the domestic legal requirements and, as necessary, will enforce the TCI Legislation including cases of significant non-compliance notified to it by the US or UK Competent Authorities.

## **1.6. Specified Persons**

Reference to a Specified Person in these Guidance Notes relates to either a Specified US Person or Specified UK Person as the context requires. Where a different treatment applies, these Guidance Notes will state Specified US Person or Specified UK Person as necessary.

The term “Specified US Person” is defined in the US Agreement as:

A U.S. Person, other than:

- (i) a corporation the stock of which is regularly traded on one or more established securities markets;
- (ii) any corporation that is a member of the same expanded affiliated group, as defined in section 1471(e)(2) of the U.S. Internal Revenue Code, as a corporation described in clause (i);
- (iii) the United States or any wholly owned agency or instrumentality thereof;
- (iv) any State of the United States, any U.S. Territory, any political subdivision of any of the foregoing, or any wholly owned agency or instrumentality of any one or more of the foregoing;
- (v) any organization exempt from taxation under section 501(a) of the U.S. Internal Revenue Code or an individual retirement plan as defined in section 7701(a)(37) of the U.S. Internal Revenue Code;
- (vi) any bank as defined in section 581 of the U.S. Internal Revenue Code;
- (vii) any real estate investment trust as defined in section 856 of the U.S. Internal Revenue Code;
- (viii) any regulated investment company as defined in section 851 of the U.S. Internal Revenue Code or any entity registered with the U.S. Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. 80a-64);
- (ix) any common trust fund as defined in section 584(a) of the U.S. Internal Revenue Code;
- (x) any trust that is exempt from tax under section 664(c) of the U.S. Internal Revenue Code or that is described in section 4947(a)(1) of the U.S. Internal Revenue Code;
- (xi) a dealer in securities, commodities, or derivative financial instruments (including notional principal contracts, futures, forwards, and options) that is registered as such under the

laws of the United States or any State;

- (xii) a broker as defined in section 6045(c) of the U.S. Internal Revenue Code; or (xiii) any tax-exempt trust under a plan that is described in section 403(b) or section 457(g) of the U.S. Internal Revenue Code.

The term “Specified UK Person is defined in the UK Agreement as:

A person or Entity who is resident in the United Kingdom for tax purposes, and includes a person or Entity who is resident in both the United Kingdom and the Turks & Caicos Islands under the respective domestic law of each Party, other than:

- (i) a corporation the stock of which is regularly traded on one or more established securities markets;
- (ii) a corporation that is a member of the same affiliated group, as defined in Section 1471(e)(2) of the U.S. Internal Revenue Code, as a corporation described in (i) above;
- (iii) a Depository Institution;
- (iv) a broker or dealer in securities, commodities, or derivative financial instruments (including notional principle contracts, futures, forwards, and options) that is registered as such under the laws of the United Kingdom; or
- (v) an exempt beneficial owner as defined in Annex II.

## **2. FINANCIAL INSTITUTIONS**

### **2.1. General**

FATCA introduced the concept of a Foreign Financial Institution (FFI). Under the US Agreement this term applies to non-US entities which may fall within one or more of the following categories:

- Custodial Institution (Section 2.7)
- Depository Institution (Section 2.8)
- Investment Entity (Section 2.9)
- Specified Insurance Company (Section 2.10)

Under the UK Agreement the term applies to non-UK entities in the same categories.

The extended definition of Financial Institution (which includes the concept of “relevant holding companies” and “treasury centers of financial groups”) included in the US Regulations published in January 2013, does not apply to entities based and operating in the Turks & Caicos Islands. The definition in the Agreement takes priority over the definition in the US Regulations unless failure to do so will put a TCI based Financial Institutions in a disadvantageous position.

Certain Financial Institutions will meet the definition of a:

- Deemed-Compliant Financial Institution, and hence Non- Reporting Financial Institution, under the US Agreement (Section 3); or
- Non-Reporting Financial Institution under the UK Agreement (Section 4)

which will reduce or remove the registration or reporting obligations of the entity. Some exemptions may also apply in respect of certain products and entities (Section 5).

The first step to be undertaken by an entity or its representative is to establish whether, for the purposes of the Agreements, the entity is a Turks and Caicos Islands Financial Institution. This, together with establishing the type of Financial Institution, will determine the extent of the obligations that need to be undertaken.

### **2.2. Turks and Caicos Islands Financial Institution**

A TCI Financial Institution is any Financial Institution established under the laws of or resident in the Turks & Caicos Islands.

For these purposes, established under the laws of or resident in the Turks & Caicos Islands means the following:

- A company that has been duly registered as a company in the TCI pursuant to the provisions of the Companies Ordinance. This includes those companies that are registered pursuant to the Companies Ordinance as a foreign company;

- For trusts, if any of the trustees are incorporated, registered or licensed in the TCI under the Trustees Licensing Ordinance, including entities licensed under the Banking Ordinance. In the case of an individual, that trustee must be resident in the TCI;
- Limited Partnerships that are registered in the TCI under the provisions of the Limited Partnerships Ordinance;
- General Partnerships that are governed by the Partnership Ordinance. The residency of the partners are not applicable in this instance.

US Entity Classification Elections (check the box elections) made to the IRS are irrelevant in determining whether an entity is within the scope of the US Agreement.

A foreign company is defined in the Companies Ordinance as a body corporate incorporated outside the Islands and has an established place of business and is carrying on business within the Islands.

For the avoidance of doubt, a TCI Financial Institution may include a foreign company (registered in the TCI as a foreign company) and any non-resident Financial Institution which has a permanent establishment located in the TCI through which it conducts business as a Financial Institution.

A dual resident entity (i.e. an entity resident in both the Turks & Caicos Islands and for these purposes in another jurisdiction) will need to apply the TCI Regulations in respect of any Reportable Accounts maintained in the TCI unless it has actual knowledge that it is undertaking the appropriate reporting in the other jurisdiction. For example, actual knowledge may include a copy of acknowledgement of the FATCA submission in the other jurisdiction.

### **2.3. Reporting Turks and Caicos Islands Financial Institution**

A TCI Financial Institution will be classified as either a Reporting TCI Financial Institution or a Non-Reporting TCI Financial Institution. A Reporting TCI Financial Institution is any TCI Financial Institution which is not a Non-Reporting TCI Financial Institution as set out in Section 3.4.

A Reporting TCI Financial Institution is required to:

- Undertake due diligence procedures to identify Reportable Accounts (see Sections 12-16) and report annually to the Exchange of Information Unit the required information in the prescribed time and manner (see Section 17);
- Report annually to the Exchange of Information Unit payments made to Non-Participating Financial Institutions (see Section 17.6);
- Register with the IRS to obtain a GIIN (see Section 11).

In certain circumstances the due diligence and reporting obligations can be undertaken by a third party service provider although the responsibility remains with the TCI Financial Institution. (See Section 11.5.)

## **2.4. Non-Reporting Turks and Caicos Islands Financial Institutions**

### **2.4.1. US Agreement**

A Non-Reporting TCI Financial Institution is any TCI Financial Institution that falls within the exemptions set out in Annex II to the US Agreement or one which otherwise qualifies as:

- A Deemed Compliant Financial Institution (Section 3);
- An Owner Documented Financial Institution (Section 3.4); or
- An Exempt Beneficial Owner (Section 5).

Most Non-Reporting TCI Financial Institutions will not need to obtain a Global Intermediary Identification Number (**GIIN**), and so will not need to register, or carry out the due diligence and reporting requirements under the Agreements. They will, however, need to provide certain documentation to withholding agents to certify their status.

The following Registered Deemed Compliant Financial Institutions have some registration obligations under the US Agreement. (See Section 3.2. for more information on each of these categories):

- Sponsored Investment Entities and Controlled Foreign Entities;
- Financial Institutions with a Local Client Base which have US Reportable Accounts;
- Qualified credit card issuers;
- Non-reporting members of participating financial institution groups;
- Qualified collective investment vehicles;
- Restricted funds

### **2.4.2. UK Agreement**

A Non-Reporting TCI Financial Institution is any TCI Financial Institution that falls within the exemptions set out in Annex II to the UK Agreement. See Section 5 for further information.

## **2.5. Withholding Tax – US Agreement only**

TCI Financial Institutions will not be subject to the withholding tax imposed on US source receipts by Section 1471 of the US Internal Revenue Code, provided they comply with TCI Regulations.

US withholding tax that applies on US source income (for example U.S. source dividends) under other parts of the US Internal Revenue Code will continue to apply.

## **2.6. Closing Recalcitrant Accounts – US Agreement only**

TCI Financial Institutions will not be required to close recalcitrant accounts, provided they comply with the Regulations.

## 2.7. Custodial Institution

A Custodial Institution is any entity that earns a substantial portion (at least 20 per cent) of its gross income from the holding of financial assets for the account of others and from related financial services. This test applies to the last three accounting periods or the period since commencement, if shorter. When this test is applied to an entity conducting company management business in the TCI, the Government license fees and other fees payable to the Financial Services Commission held by the Custodial Institution for the account of others should not be included in the calculation.

Related financial services include any service which is directly related to the holding of assets by the Institution on behalf of others. It also includes:

- Custody, account maintenance and transfer fees;
- Execution and pricing commission and fees from securities transactions;
- Income earned from extending credit to customers;
- Income earned from CFDs and on the bid-ask spread of financial assets; and
- Fees for providing financial advice, clearance and settlement services.

Such institutions **could** include (i) brokers and clearing organizations (such as an entity holding a Category 1 license under the Investment Dealers (Licensing) Ordinance(ii) custodians; (iii) custodial banks (such as an entity holding a banking license under the Banking Ordinance; (iv) authorized custodians approved by the Financial Services Commission under the Financial Services Commission Ordinance; and (v) certain trust companies conducting trust business (such as an entity holding a Class I or Class II trust license under the Trust Ordinance.

It is acknowledged that in the TCI, the term “trust company” is used to describe any entity which holds either a trust license under the Trustee Licensing Ordinance or a license under the Companies Ordinance. The Financial Services Commission (FSC) regulates both trust business and company management business (as well as banking business). There are many entities holding licenses issued by the FSC that do not conduct any trust business. A holder of a Class III trust license under the Companies & Trust Ordinances are (despite the classification of the license) not authorized to carry on trust business (although it may act as a nominee shareholder – see below). In addition, while the holder of a Class I trust license is permitted to carry on both trust business and company management business, many will not conduct a material amount of trust business.

There are licensees that organize their affairs so as to only conduct custody business through one or more of their subsidiaries. In such cases, the relevant subsidiary of the licensee will be deemed the Reporting TCI Financial Institution.

An entity only carrying on the business of a nominee shareholder is exempt from the requirement to hold a license under the Companies & Trust Ordinances. However, a nominee shareholder will qualify as a Custodial Institution if a substantial proportion of its gross income arises from such activity or related financial services.

Generally, insurance brokers do not hold assets on behalf of clients and so should not fall within the scope of this provision.

Examples:

1. An entity holding a Class I Companies & Trust Ordinance license provides a variety of corporate and trusts services to its clients including registered office/ registered agent, trust administration, nominee shareholdings and acting as an authorized custodian of bearer shares<sup>1</sup>. More than 90% of gross income arises from the registered office/registered agent business and associated company administration. As such, the entity is not a Custodial Institution as less than 20% of its gross income arises from the holding of Financial Assets for the account of others and from related financial services.
2. The same facts as outlined above apply, however, the custody business is conducted through a wholly owned subsidiary of the Class I licensee. In this instance the invoices for the custody business are put through the parent entity rather than the subsidiary. There is no requirement to attribute income to the subsidiary and as such the subsidiary will not be treated as a custodial institution.

## **2.8. Depository Institution**

A Depository Institution is broadly any entity that is engaged in banking or similar business. The Agreements refer only to the need to accept deposits but the US Regulations have been amended to require additional banking activity to be carried out. This amended definition will apply to the Agreement.

A Depository Institution is one that accepts deposits in the ordinary course of banking or similar business and regularly engages in one or more of the following activities:

- Provision of credit through personal, mortgage, industrial or other loans or other extensions of credit;
- Purchases, sells, discounts or negotiates of accounts receivable, instalment obligations, notes, drafts, cheques, bills of exchange, acceptances, or other evidence of indebtedness;
- Issues letters of credit and negotiates drafts drawn thereunder;
- Provides trust or fiduciary services;
- Finances foreign exchange transactions; or
- Enters into, purchases, or disposes of finance leases or leased assets.

The following would not be expected to fall within the definition of Depository Institution:

- Insurance brokers;
- Solicitors/Advocates operating a client account;

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<sup>1</sup> Section 38 of the Companies Ordinance prohibits the issuance of bearer shares. This example applies only to those shares issued prior to the amendment to the Ordinance in 2013.

- Factoring or invoice discounting businesses;
- Entities that complete money transfers by instructing agents to transmit funds;
- Entities that hold licenses to conduct trust business or company management business under the Company & Trust Ordinances;
- Entities that solely provide asset based finance services or that accept deposits solely from persons as collateral or security pursuant to a sale or lease of property; a loan secured by property; or similar financing arrangements, between that entity and the person making the deposit;
- Entities that (i) provide credit under financing agreements to borrowers resident in the TCI and; (i) carry on money services business (money transmission services) (ii) cheque cashing; (iii) currency exchange; (iv) the issuance, sale or redemption of money orders or traveller's cheques; and the business of operating as an agent or franchise holder of a business mentioned, pursuant to the provisions of the Money Transmitters Ordinance.

## **2.9. Investment Entity**

Although Investment Entity is clearly defined in the IGA's, the definitions in the US Regulations and the Common Reporting Standard (**CRS**) are different. Since the CRS is likely to become the global standard, and is substantially similar to the US Regulations definition, this will also be included in the TCI Legislation. Entities may choose which definition to apply when determining whether or not it is an Investment Entity.

If an entity is not an Investment Entity under just one of the definitions and elects to use that definition then it is not a Financial Institution even if it falls within either of the other two definitions of Investment Entity.

### **2.9.1 IGA Definition**

The IGA definition of Investment Entity states that:

An Investment Entity is an entity that conducts as a business, or is managed by an entity that conducts as a business, one or more of the following activities or operations, for or on behalf of a customer:

- Trading in money market instruments (cheques, bills, certificates of deposit derivatives etc.);
- Trading in foreign exchange;
- Trading in exchange, interest rate and index instruments;
- Trading in transferable securities and commodity futures trading;
- Individual and collective portfolio management;

- Otherwise investing, administering or managing funds or money on behalf of other persons.

The following entities will ordinarily fall within the IGA definition of an Investment Entity:

- Collective investment vehicles (see section 8);
- Fund managers; and
- Fund administrators

In practice, when applying the IGA definition, an entity that is professionally managed by a third party will generally be an Investment Entity, by virtue of the managing entity being an Investment Entity. This is referred to in these Guidance Notes as the “managed by” test. The “managed by” test is also applied to interpretation of the US Regulations and the CRS definitions of Investment Entity.

For the purposes of the “managed by” test, a distinction should be made between one entity “managing” another and one entity “administering” another. The services which are outlined below are services that if provided by one entity to another will not (on their own) constitute the latter entity being “managed by” the former:

- Provision of secretarial and/or company secretarial services;
- Provision of registered office, registered agent services;
- Preparation of final financial statements (from books and records maintained by the entity);
- Preparation of tax returns;
- Provision of bookkeeping services including accounting, budgeting and cash-flow forecasts and maintenance of books and records;
- Provision of nominee shareholder(s);
- Acting as an insurance manager to an entity under the Insurance Ordinance.

A distinction must also be made in relation to the provision of directors to a company. The provision of individuals by a company services provider to serve as a director of an entity will not fall within the “managed by” test. A corporate director of a company services provider does not constitute the company being managed by the corporate services provider, as such directors would not conduct as a business any of the IGA Definition Activities. For avoidance of doubt, a corporate director, in its capacity as director of a company, does not invest, administer or manage funds or money (as a business) on behalf of others. Corporate directors differ from a third party investment manager, broker or advisor who are typically engaged by a company to provide professional investment business services which are inclusive of investing, administering or managing funds or money on behalf of the company.

The role of a general partner of a limited partnership will typically satisfy the “managed by” test in that a general partner is a separate legal person that conducts the business of the limited partnership on behalf of the partners. It will, therefore be necessary to consider the role of a general partner on a case by case basis and whether or not the general partner conducts as a business any of the IGA Defined Activities.

The following scenarios are provided are examples that can be utilized to assist in determining whether the services provided by one entity (conducting such services as a business) to another entity would constitute the latter entity being “managed by” the former:

- Mr. Smith is appointed as the sole director of TCI Company Alpha Ltd whose primary assets are Financial Assets. Mr. Smith is an employee of a TCI company services provider. Alpha Ltd is not considered to be managed by a Financial Institution solely due to Mr. Smith’s role as a director. However, Alpha Ltd may still be regarded as a TCI Financial Institution if its assets are managed by another investment entity (e.g. an investment manager).
- TCI Company, Bravo Ltd, is a trading company (trading in consumer electronics) with one corporate director. Bravo Ltd will not be deemed an Investment Entity as it does not conduct as a business, any of the IGA Defined Activities, Similarly its corporate director does not conduct any such activities in its capacity as director of Bravo Ltd.
- TCI Company, Charlie Ltd, trades in non-financial assets but is managed by a third party which conducts as a business one or more of the IGA Defined Activities. Charlie Ltd would be deemed an Investment Entity by virtue of being managed by an entity which conducts, as a business, one or more of the IGA Defined Activities. However, if the entity chooses to apply the CRS definition it would not be classified as an Investment Entity as it does not have income primarily attributable to financial assets.
- TCI Company, Delta Ltd, has a single brokerage account containing Financial Assets. Delta Ltd will need to consider whether it conducts as a business any of the IGA Defined Activities to determine whether it is an Investment Entity or a NFFE. If Delta Ltd appoints a corporate director consideration will need to be given as to whether the director conducts as a business any of the IGA Defined Activities. If it does, then it may be classified as an Investment Entity.
- TCI Company Echo Ltd is a 50/50 joint venture with two corporate directors each representing the interests of one of the joint venture shareholders. Neither of the corporate directors provides as a business any of the IGA Defined Activities to Echo Ltd. It is not an Investment Entity. However, if Echo Ltd is professionally managed by a third party investment manager, Gold Ltd., Echo Ltd will be classified as an Investment Entity.
- TCI Company Hotel Ltd which trades in money market instruments, has one corporate director, one individual director and is managed by a third party which conducts as a business, one or more of the IGA Defined Activities. The third party manager also has a discretionary mandate of Hotel Ltd.’s portfolio of assets. Hotel Ltd would be classified as an Investment Entity as it conducts IGA Defined Activities and it is also managed by a third party entity which also conducts activities that are found in the list of IGA Defined Activities.
- TCI limited partnership, Indigo L.P. has a single general partner, Juliet Ltd. It conducts

as a business the trading of money market instruments. Indigo L.P. will be classified as an Investment Entity as it conducts as a business IGA Defined Activities and it is managed by an entity which conducts such a business.

- Kilo L.P. has a single general partner, Lima Ltd. Kilo L.P. invests solely in real estate assets. Kilo L.P. will not be classified as an investment entity itself as it invests in non-financial assets.
- Mike Ltd acts as investment adviser to and provides non-binding investment advice to November Ltd. November Ltd is not managed by Mike Ltd for the purposes of the “managed by” test and will not be classified as an Investment Entity by virtue of the relationship with Mike Ltd. The activities of November Ltd will need to be examined separately to determine if November Ltd itself is a Financial Institution.

### ***2.9.2 Common Reporting Standard Definition***

Alternatively, the definition of an Investment Entity as included in the CRS may be used when classifying an entity.

An Investment Entity is any entity:

- a) That primarily conducts as a business one or more of the following activities or operations for or on behalf of a customer:
  - i. Trading in money market instruments (cheques, bills, certificates of deposit, derivatives etc.); foreign exchange; exchange, interest and index instruments; transferable securities; or commodity futures trading;
  - ii. Individual and collective portfolio management; or
  - iii. Otherwise investing, administering, or managing Financial Assets or money on behalf of other persons; or
- b) The gross income of which is primarily attributable to investing, reinvesting, or trading in Financial Assets, if the Entity is managed by another Entity that is a Depository Institution, a Custodial Institution, a Specified Insurance Company or an Investment Entity described in a) above.

An entity will be treated as primarily conducting a business, where the entity undertakes one of the activities detailed in a) above or where the entity’s gross income is primarily attributable to investing, reinvesting, or trading in Financial Assets for the purpose of b) above. The Entity’s gross income attributable to the relevant activities, must equal or exceed 50% of the Entity’s gross income. This test applies to the three year period ending 31 December of the year preceding the year in which the determination is made or the period since commencement, whichever is shorter.

Therefore an entity whose gross income is primarily attributable to non-financial assets such as real property, even if managed by a Financial Institution, will not be an Investment Entity.

Where an entity is managed by an individual who performs one of the activities prescribed above, the managed entity will not be deemed an Investment Entity as an individual cannot be a

Financial Institution. In this case it will be necessary to look at the activities of the entity itself.

An Investment Entity does not include any entity that is an Active NFFE because it meets any of the criteria in section 10.3 subparagraphs d) through to g).

Although trusts, sponsored entities, investment advisers, investment managers and collective investment vehicles might fall within this definition, in certain circumstances they will be Non-Reporting Financial Institutions and, for the purpose of the US Agreement, are also treated as deemed-compliant FFIs. Some trusts may also not be Investment Entities, particularly where the trust holds only non-financial assets or is managed by an individual. Please refer to the Sections dealing with these types of entity for further information.

### ***2.9.3 US Regulations Definition***

As permitted under the Agreements, the definition of Investment Entity included in the US Regulations may also be used.

An Investment Entity is any entity that is described in a), b) or c):

- a) An entity that primarily conducts as a business one or more of the following activities or operations for or on behalf of a customer—(1) Trading in money market instruments (cheques, bills, certificates of deposit, derivatives, etc.); foreign currency; foreign exchange, interest rate, and index instruments; transferable securities; or commodity futures; (2) Individual or collective portfolio management; or (3) Otherwise investing, administering, or managing funds, money, or financial assets on behalf of other persons;
- b) Where an entity's gross income is primarily attributable to investing, reinvesting, or trading in financial assets and the entity is managed by another entity (that is a Financial Institution). For purposes of this paragraph an entity is managed by another entity if the managing entity performs, either directly or through another third-party service provider, any of the activities described in paragraph a) of this section on behalf of the managed entity; or
- c) The entity functions or holds itself out as a collective investment vehicle, mutual fund, exchange traded fund, private equity fund, hedge fund, venture capital fund, leveraged buyout fund, or any similar investment vehicle established with an investment strategy of investing, reinvesting, or trading in financial assets.

#### **2.9.4. Financial Assets**

The term “Financial Assets” includes, but is not restricted to:

- a security (for example a share of stock in a corporation; partnership, or beneficial ownership interest in a widely held or publicly traded partnership or trust; note, bond, debenture, or other evidence of indebtedness);
- Partnership Interest;
- Commodity;
- Swap (for example interest rate swaps, currency swaps, basis swaps, interest rate caps, interest rate floors, commodity swaps, equity swaps, equity interest swaps and similar arrangements);
- Insurance Contract or Annuity Contract; or
- Any interest (including a futures or forward contract or option) in a security, partnership interest, commodity, swap, Insurance Contract or Annuity Contract.

The following would not be considered to be Financial Assets:

- Cash;
- A non-debt, direct interest in real property.

Direct interest in the case of real property means direct-line of ownership (and for an Entity which does not hold itself out to be a collective investment vehicle this can include real property that is indirectly held through companies).

Please note that for the avoidance of doubt, although cash will not be viewed as a Financial Asset for the purposes of classifying an entity using the CRS or US Regulations definition of an Investment Entity, it may be a Financial Account and thus be subject to the normal due diligence procedure by the Financial Institution that maintains that account.

### **2.9.5. Examples - using CRS or US Regulations Definitions**

1. A personal investment Company whose sole assets comprise of a portfolio of Financial Assets which is not managed by another Financial Institution, would not be deemed an Investment Entity under any of the definitions. However, the Financial Accounts held by the Company at Financial Institutions will be subject to due diligence by the Financial Institution and to reporting by the Financial Institution which manages such account. The company will need to be prepared to provide due diligence and self-certify its status.
2. A non-financial trading company, for example, a real estate company, managed by a Financial Institution, would not be deemed an Investment Entity as its gross income is not primarily attributable to investing, reinvesting or trading in financial assets. The fact that the company is managed by an Investment Entity in this instance is irrelevant.
3. The holding company of a group of non-financial trading companies is not an Investment Entity whether or not managed by another Financial Institution, unless it is a collective investment vehicle, as it does not conduct as a business any of the activities in Section 2.9.2. a) or 2.9.3. a).
4. A Collective Investment Vehicle which holds an interest in real property directly and not via trading companies or through other securities would be an Investment Entity.

### **2.10. Specified Insurance Company**

An insurance company is a Specified Insurance Company when the products written are classified as Cash Value Insurance or Annuity Contracts or if payments are made with respect to such contracts.

Insurance companies that only provide General Insurance or term Life Insurance should not be Financial Institutions under this definition and neither will reinsurance companies that only provide indemnity reinsurance contracts. A Specified Insurance Company can include both an insurance company and its holding company. However, the holding company itself will only be a Specified Insurance Company if it issues or is obligated to make payments with respect to Cash Value Insurance Contracts or Annuity Contracts.

As only certain persons are permitted to provide Insurance Contracts or Annuity Contracts, it is unlikely that an insurance holding company will in itself issue, or will be obligated to make payments with respect to Cash Value Insurance or Annuity Contracts.

Insurance brokers are part of the payment chain and should not be classified as a Specified Insurance Company because they are not obligated to make payments under the terms of the Insurance or Annuity Contract.

### **2.11. Captive Insurance Companies**

A Captive Insurance Company which does not issue cash value insurance contracts or annuity contracts will not be a specified insurance company. Generally, the Captive Insurance Company will neither be a Depository Institution nor a Custodian Institution.

Captive Insurance Companies are required to hold investments in order to meet potential claims. Holding and managing those investments on behalf of a captive insurance company is rarely a

major part of the activities performed by the captive insurance manager. Accordingly, it is not expected that any manager's profits arising from administering the investments will be equal to or exceed 50% of the manager's gross profits.

Equally, whilst some of the services provided by captive insurance managers to insurance companies may be considered "otherwise...administering or managing funds or money", these services are typically ancillary to the role of managing the insurance business which is much more concerned with the management of claims and premiums.

Therefore, when applying the US Regulations definition of an Investment Entity, Captive Insurance Managers are unlikely to be categorised as Financial Institutions.

If a Captive Insurance Company is not categorised as a Financial Institution, it will be an NFFE. It is likely that only investment income arising from capital in excess of the amount of capital required to be maintained by the company for regulatory purposes will be viewed as passive income. The premiums received by the company will be viewed as trading income. Therefore, the likelihood is that less than 50% of the company's gross income will be viewed as passive income and less than 50% of the assets held by the company will be viewed as assets that produce or are held for the production of the passive income. As such, the company would be categorised as an active NFFE.

There may however be circumstances where the income arising from the excess capital will exceed 50% of the company's gross profits in which case the company might be categorised as a passive NFFE.

For the purposes of both the US and UK agreement, any TCI captive insurance corporation which meets the following requirement will not be treated as a TCI entity for FATCA purposes.

The entity will be treated as a US Corporation (and will be required to complete Form W-9 if requested) provided it meets the specified criteria below:

- It has made a section 953(d) election as long as it either is:
  - not a specified insurance company to do business in any state; or
  - a specified insurance company and is licensed to do business in any state.

## **2.12. Nominee Companies**

Where a company acts as a nominee shareholder of other companies then such activity can be disregarded for the purposes of entity classification. This treatment is optional and such companies can be treated as Custodial Institutions if preferred.

### **2.13. Branches and Subsidiaries**

A branch by a non-TCI entity (including a US entity) carrying on business as a Custodial Institution, a Depository Institution, an Investment Entity or a Specified Insurance Company in the TCI will be a Reporting TCI Financial Institution.

A non-TCI Entity will not be treated as carrying on business in the TCI solely because one or more of the following apply to the Entity:

- One or more of its directors or members of its governing board are resident in the TCI;
- It maintains a bank account in the TCI.

There are other factors which could be considered in determining whether a non-TCI entity is carrying on business such as registration as a foreign company under the Companies Ordinance.

Subsidiaries of TCI Financial Institutions that are not located in the TCI are outside the scope of the Agreements and will not be treated as TCI Financial Institutions. Those entities will be covered by the relevant laws in the jurisdiction in which they are located. Those laws will either be the US Regulations or the legislation introduced to implement an IGA between the US and that jurisdiction.

However, where such Subsidiaries act as introducers with regards to a Financial Account and the relevant account is held and maintained in the TCI by a TCI Financial Institution and as such is subject to the Islands regulatory requirements, that account will fall within the scope of TCI Agreements. The TCI Financial Institution will be required to undertake the appropriate due diligence processes and report the appropriate details to the Exchange of Information Unit.

Where a TCI Specified Insurance Company has an overseas branch it may not be immediately apparent whether the policies in respect of that branch are reportable under the Agreements or not. It may not be immediately apparent as assets backing all policies form part of the Long Term Business Fund of the TCI Specified Insurance Company. Whether they are reportable will be dependent on factors such as:

- Whether the branch issues the policy or merely acts as an introducing agent or marketing entity;
- Where the risk is accepted;
- The governing law of the policy; and
- Whether the insurer has registered the overseas branch as a Financial Institution.

Where the policies are issued by the overseas branch and where the branch is registered as a Financial Institution, those policies would not form part of the Agreements, but would be subject to the reporting requirements (if any) of the jurisdiction in which the branch is situated.

Where the branch acts as an introducer to policies that are issued in the TCI, then those policies will be governed by the Agreements.

### ***Example 1***

*Astra Bank Limited, located in TCI, has within its group the following entities:*

- *Its parent (P), located in the UK*
- *A foreign subsidiary (B) located in Model 1 Partner Jurisdiction*
- *A foreign branch (C) located in Model 2 Partner Jurisdiction*
- *A foreign subsidiary (X) located in a non IGA jurisdiction*
- *A foreign branch (Y) located in the US*

*Under the terms of the US Agreement*

- *P will report on Specified US Persons for whom it holds Financial Accounts to HMRC (under the UK-US IGA).*
- *Astra Bank will report on Specified US Persons for whom it holds Financial Accounts to the Exchange of Information Unit*
- *B will report to its respective jurisdiction's competent authority*
- *C will report directly to the IRS*
- *X will be a Limited FFI and will have to identify itself as a Non-Participating Foreign Financial Institution for withholding and reporting purposes if it has not entered into an FFI agreement directly with the IRS. However X must undertake the obligations required under the US Regulations as far as it is legally able.*

*Under the terms of the UK Agreement*

- *Astra Bank will report on Specified UK Persons for whom it holds Financial Accounts to the Exchange of Information Unit.*
- *On the basis that none of the subsidiaries or branches are in jurisdictions that have entered into an IGA with the UK or the Government of the TCI, there are no reporting obligations for those entities in respect of accounts held by Specified UK Persons.*

*A TCI branch of a non- TCI Financial Institution is a Turks and Caicos Islands Financial Institution and must report in accordance with the Agreements.*

## ***Example 2***

*Australia Bank has a branch J, located in the Turks and Caicos Islands.*

*Under the terms of the US Agreement*

- *J is a Turks and Caicos Islands Financial Institution and will need to comply with TCI Legislation and report information on any reportable US Financial Account to the Exchange of Information Unit.*

*Under the terms of the UK Agreement*

- *J is a Turks and Caicos Islands Financial Institution and will need to comply with TCI Legislation and report information on any reportable UK Financial Account to the Exchange of Information Unit.*

Please refer to Section 12.18 in respect of subsidiaries and branches acting as introducers with regard to a Financial Account.

### **2.14. Related Entities**

For the purposes of the Agreements, when a TCI Financial Institution is considering its own group, the definition for Related Entity is as set out in the Agreements. An entity is regarded as being related to another entity if one entity controls the other or the two entities are under common control. For this purpose, control means the direct or indirect ownership of more than 50% of the votes or value in an entity.

As permitted under the Agreements, the definition of “control” and “expanded affiliate group” included in the US Regulations may also be used.

The relevance of the term Related Entities differs between the Agreements.

In respect of both Agreements, it is relevant to the definitions in Annex II.

Investment Entities which have been provided with seed capital by a member of a group to which the Investment Entity belongs, will not be considered to be a Related Entity for these purposes.

Seed capital investment is the original capital contribution made to an Investment Entity that is intended to be a temporary investment. This would generally be for the purpose of establishing a performance record before selling interests in the entity to unrelated investors or for purposes otherwise deemed appropriate by the manager.

Specifically, an Investment Entity will not be considered to be a Related Entity as a result of a contribution of seed capital by a member of the group if:

- The member of the group that provides the seed capital is in the business of providing seed capital to Investment Entities that it intends to sell to unrelated investors;
- The Investment Entity is created in the course of its business;
- Any equity interest in excess of 50% of the total value of stock of the Investment Entity is intended to be held for no more than three years from the date of acquisition; and
- In the case of an equity interest that has been held for over three years, its value is less than 50% of the total value of the stock of the Investment Entity.

In respect of the US Agreement only, the concept of Related Entity is relevant in the context of the reporting obligations of the TCI Financial Institutions in respect of any Related Entities that are Non-Participating Financial Institutions (**NPFIs**). See Section 2.15 for information on when a Financial Institution is treated as a NPFI.

When a TCI Financial Institution has any Related Entity that, as a result of the jurisdiction in which they operate, is unable to comply with FATCA, then in order to maintain compliance the TCI Financial Institution must fulfil the obligations set out in the US Agreement. Further information is set out in Section 17.6.

### **2.15. Non-Participating Financial Institution – US Agreement only**

A Non-Participating Financial Institution (**NPFI**) is a Financial Institution that is not compliant with FATCA by virtue of either:

1. the Financial Institution being located in a jurisdiction that does not have an IGA with the US and the Financial Institution has not entered into a FATCA Agreement with the IRS; or
2. the Financial Institution being classified by the IRS as being a NPFI following the conclusion of the procedures for significant non-compliance being undertaken as set out in Article 5(2)(b) of the US Agreement.

Payments made by a TCI Financial Institution to a NPFI, whether the NPFI is resident in the TCI or otherwise, must be reported by the TCI Financial Institution. See Sections 15.7 and 16.6 for details on how to identify a NPFI and Sections 17.6, 17.8 and 17.9 for details on reporting and withholding requirements.

### **3. DEEMED COMPLIANT FINANCIAL INSTITUTIONS – US AGREEMENT ONLY**

#### **3.1. General**

The concept of Deemed-Compliant Financial Institutions relates only to the US Agreement.

Annex II of the US Agreement classifies certain entities as "Exempt Beneficial Owners" and "Deemed Compliant Financial Institutions", which are collectively regarded as "Non-Reporting Financial Institutions", as well as describing certain excluded accounts (e.g. for retirement and pension plans or term life insurance contracts).

In addition, there are certain categories of Deemed Compliant Financial Institutions separately recognized under the US Regulations.

Financial Institutions referred to as Registered Deemed Compliant will be obliged to register with the IRS and obtain a GIIN. Financial Institutions referred to as Certified Deemed Compliant will not need to register with the IRS (save for certain limited exceptions). Rather than register with the IRS, Certified Deemed Compliant Financial Institutions should self-certify with withholding agents to evidence their status and avoid the imposition of 30% withholding on US source payments.

Section §1.1471-5(f)(2) of the US Regulations provides that “A certified deemed-compliant FFI also includes any non-reporting IGA FFI. A certified deemed-compliant FFI is not required to register with the IRS.”

Accordingly, Deemed Compliant Financial Institutions are Financial Institutions identified as Certified Deemed Compliant under Annex II, or which otherwise qualify as Certified Deemed Compliant or Registered Deemed Compliant, or Owner Documented Deemed Compliant, under the US Regulations.

Exempt Beneficial Owners and Deemed Compliant Financial Institutions have no reporting obligations in respect of Financial Accounts that they maintain under the US Agreement.

When completing Form W8-BEN-E, TCI Registered Deemed Compliant Financial Institutions and Certified Deemed Compliant Financial Institutions should make the Chapter 4 status election as a “Non-reporting IGA FFI (including an FFI treated as a registered deemed compliant FFI under an applicable Model 2 IGA. Complete Part XII”.

#### **3.2. Registered Deemed Compliant Financial Institutions – US Agreement only**

A TCI Financial Institution that qualifies to be listed in one of the Registered Deemed Compliant categories detailed below will, need to register to obtain a GIIN or must be registered by another entity. Such a Financial Institution will not need to report but details of Financial Accounts maintained by the Financial Institution may be reported by another entity.

### **3.2.1. Non-reporting members of Participating Financial Institution Groups (US Reg 1471-5(f) (1) (i) (B))**

This category applies to a non-reporting Financial Institution that is a member of a group of entities which includes at least one Participating Financial Institution. It allows a non-reporting Financial Institution to be Registered Deemed-Compliant, and as such not to have any reporting obligations, if certain criteria are met. This might apply for example where a member of a group of Financial Institutions has no Reportable Accounts but subsequently opens a Reportable Account. Essentially the non-reporting member must review accounts and where such accounts are identified as Reportable Accounts or Accounts held by NPFIs, they are required to either close the account, transfer the account to a Reporting Financial Institution or become a Participating, and hence Reporting, Financial Institution in its own right.

A Financial Institution that meets the following requirements can be treated as Registered Deemed Compliant:

- On or by the 30 June 2014 or the date it obtains a GIIN, the Financial Institution implements policies and procedures to allow for the identification and reporting of:
  - Pre-existing Reportable Accounts;
  - Reportable Accounts opened on or after 1 July 2014;
  - Accounts that become Reportable Accounts as a result of a change in circumstances;
  - Accounts held by NPFIs
- After the Financial Institution has carried out the required review of accounts opened prior to implementing the appropriate policies and procedures, the Financial Institution:
  - Identifies the account as a US Reportable Account, or
  - Becomes aware of a change in circumstance of the account holder's status such that the account becomes a US Reportable Account.

Then within six months of either of the above events, the Financial Institution closes the account or transfers it to a Model 1 Financial Institution, Participating Financial Institution or US Financial Institution or reports the account to the Exchange of Information Unit.

### **3.2.2. Qualified Collective Investment Vehicles (US Regs 1471-5(f) (1) (i) (C))**

The Qualified Collective Investment Vehicle category is intended to provide relief for Investment Entities that are owned solely through Participating Foreign Financial Institutions or directly by large institutional investors not typically subject to FATCA withholding or reporting obligations, such as retirement funds and non-profit organizations.

A Qualified Collective Investment Vehicle must satisfy the following criteria:

- It is (i) an Investment Entity and is regulated as a fund under the (Investment Dealers

Licensing Ordinance) IDLO in the TCI or (ii) it is a closed-ended fund that is incorporated as a company, formed as a partnership or organized as a trust, under the laws of the TCI and has the characteristics of a private or professional fund; and (iii) is regulated in (or is not required to be regulated) in any other country in which it operates. An investment fund is considered to be regulated if its manager is regulated with respect to the investment fund in all of the countries in which the investment fund is registered and in all of the countries in which the investment fund operates;

All of the investors are limited to:

- equity investors;
- direct debt investors with an interest greater than \$50,000; and
- any other Financial Account holder

All of which are either:

- participating Foreign Financial Institutions;
- registered Deemed Compliant Foreign Financial Institutions;
- retirement plans classified as Exempt Beneficial Owners under Annex II (see section 5.3);
- persons who are not Specified Persons;
- Non-Reporting IGA Foreign Financial Institutions; or
- other Exempt Beneficial Owners under Annex II.
- Those with other types of investors may still be Registered Deemed Compliant if they qualify as a restricted fund (see 4.2.5)

If it is part of a group of Related Entities, all Foreign Financial Institutions in that group must be:

- a Participating Foreign Financial Institution;
- a Registered Deemed Compliant Foreign Financial Institution;
- a Sponsored Foreign Financial Institution;
- a Non-Reporting IGA Foreign Financial Institution, or o an Exempt Beneficial Owners under Annex II.

### **3.2.3. Restricted Funds (US Regs 1471-5(f) (1) (i) (D))**

Restricted fund status can apply to Investment Entities that impose prohibitions on the sale of units to Specified Persons, Non-Participating Financial Institutions and Passive NFFEs with Controlling Persons that meet the following requirements:

- It is an Investment Entity and is regulated as an investment fund in the TCI and every other Country in which it operates. An investment fund is considered to be regulated if its manager is regulated with respect to the investment fund in all of the countries in which the investment fund is registered and in all of the countries in which the investment fund operates.
- Interests issued directly by the investment fund are redeemed or transferred by the investment fund and not sold by investors on a secondary market.
- Interests that are not issued directly by the investment fund are sold only through distributors that are:
  - Participating Foreign Financial Institutions;
  - Registered Deemed Compliant Foreign Financial Institutions non-registering local banks; or
  - Restricted distributors (see US Reg 1471-5(f) (4)).

A distributor includes an underwriter, broker, dealer or other person who participates, pursuant to a contractual arrangement with the Financial Institution, in the distribution of securities and holds interests in the Financial Institution as a nominee.

On or by the 30 June 2014 or six months after the date it registers as a Deemed Compliant Financial Institution, the Financial Institution:

- Ensures that each agreement that governs the distribution of its debt or equity interests, all prospectuses and marketing materials prohibit the sale or transfer to Specified Persons, Non-Participating Financial Institutions or Passive NFFEs with one or more substantial US owner, other than those that are distributed by and held through a Participating Financial Institution; and
- Ensures that each agreement that governs the distribution of its debt or equity interests requires the distributor to notify the Financial Institution of a change in the distributor's Chapter 4 status.

The Financial Institution must certify to the Exchange of Information Unit that a distributor that ceases to qualify as a distributor (as defined above) that the Financial Institution will terminate its agreement with the said distributor, or will cause the distribution agreement to be terminated, within 90 days of notification of the distributor's change in status.

Additionally, within six months of the distributor's change in status, the Financial Institution in regards to all debts and interests issued through that distributor will redeem those interests, convert the interests into direct holdings in the fund, or cause those interests to be transferred to another compliant distributor.

With respect to any of the Financial Institution's pre-existing direct accounts that are held by the beneficial owner of the interest, the Financial Institution must review those accounts in accordance with the procedures and time frames applicable to preexisting accounts so as to identify any Reportable Account or account held by a Non-Participating Financial Institution. Notwithstanding that the Financial Institution will not be required to review the account of any individual investor that purchased its interest, the Financial Institution's distribution agreements and its prospectus contain an explicit prohibition of the issuance and/or sale of shares to US entities and US citizens/residents.

On or by the 30 June 2014 or six months after the date it registers as a Deemed Compliant Financial Institution, the Financial Institution is required to notify the Exchange of Information Unit that either it did not identify any Reportable accounts or accounts held by a Non-Participating Financial Institution as a result of its review. If any such accounts were identified, that the Financial Institution will either (1) redeem such accounts or (2) transfer such accounts to an affiliate, a participating Financial Institution, a reporting Model 1 Financial Institution, or US Financial Institution.

On or by the 30 June 2014, or the date that it registers as a Deemed Compliant Financial Institution, the Financial Institution implements policies and procedures to ensure that it either:

- does not open or maintain an account for, or make a withholdable payment to, any specified US person, Non-Participating Financial Institution, or Passive NFFE with one or more substantial US owners and, if it discovers any such accounts it closes all such accounts within six months of the date that the Financial Institution became aware the account holder was deemed a specified US person, Non-Participating Financial Institution, or Passive NFFE ; or
- reports any account held by, or any withholdable payment made to, any specified US person, Non-Participating Financial Institution, or Passive NFFE with one or more substantial US owners to the extent and in the manner that would be required if the Financial Institution were a participating Financial Institution.

If the Financial Institution is part of a group of Related Entities, all Foreign Financial Institutions in that group must be:

- a Participating Foreign Financial Institution;
- a Registered Deemed Compliant Foreign Financial Institution;
- a Sponsored Foreign Financial Institution;
- a non-Reporting IGA Foreign Financial Institutions; or
- an Exempt Beneficial Owners under Annex II.

### **3.3. Certified Deemed Compliant Financial Institutions – US Agreement only**

A TCI Financial Institution that qualifies as one of the Certified Deemed Compliant categories below will not need to register to obtain a GIIN. It will need to certify its status by providing documentation regarding its owners to withholding agents, where relevant.

#### **3.3.1. Trustee-Documented Trust**

A trust that is established under the laws of the Turks & Caicos Islands and has a trustee that is a Reporting US Financial Institution, Reporting Model I FFI (including a Reporting TCI Financial Institution) or Participating FFI will be deemed a documented trust. A documented trust reports to the relevant authorities all the required information pursuant to the Agreement in regards to all US Reportable Accounts of the trust.

#### **3.3.2. Non-registering local bank (US Regs 1471-5(f) (2) (i))**

Non-registering local banks are generally small regulated local banks, credit unions and similar entities that are primarily Depository Institutions. They may, but are not required to, operate without a profit. They have no FATCA reporting obligations.

They must not have a fixed place of business outside of TCI. A fixed place of business outside the TCI does not include a location that is not advertised to the public and from which the Financial Institution performs solely administrative support functions.

Non-registering local banks must have policies and procedures prohibiting the solicitation of customers outside the TCI.

Total assets held by the Financial Institution cannot exceed \$175 million for a single entity and \$500 million for a group of Related Entities. Any Related Entities of the non-registering local bank must also satisfy these requirements. In that case, reference to fixed place of business relates to the jurisdiction in which the Related Entity operates otherwise than by way of administrative support functions.

#### **3.3.3. Financial Institution with only low value accounts (US Regs 1471-5(f) (2) (ii))**

To fall within this category, the Financial Institution must **not**:

- be an Investment Entity;
- maintain any Financial Accounts exceeding \$50,000;
- have more than \$50 million in assets on its balance sheet at the end of its most recent accounting period; and
- have more than \$50 million in assets on its consolidated or combined balance sheet where it is in a group with Related Entities.

The Financial Institution has no FATCA reporting obligations.

### **3.3.4. *Sponsored closely held Investment Vehicles (US Regs 1471-5(f) (2) (iii))***

This category is very similar to the Sponsored Investment Entity category of Deemed Compliant Financial Institution. The Sponsoring Entity must register with the IRS but does not need to register the Sponsored Investment Vehicles that it sponsors.

The Financial Institution must be an Investment Entity, which is not a US Qualified Intermediary, Withholding Foreign Partnership or Withholding Foreign Trust. A sponsored entity is required to have a contractual arrangement for its due diligence and reporting responsibilities to be carried out by a Sponsoring Entity.

The Sponsoring Entity must be a Participating Financial Institution, a Reporting Model 1 Financial Institution or a US Financial Institution.

The Sponsoring Entity must undertake all due diligence, withholding and reporting responsibilities that the Sponsored Investment Vehicle would have if it were a Reporting Financial Institution. Therefore although the Sponsored Investment Vehicle does not report on its own behalf, the Reportable Accounts maintained by the Sponsored Investment Vehicle are reported by the Sponsoring Entity. The Sponsoring Entity must also retain all documentation for a period of six years even after it has ceased to be a Sponsoring Entity for the Financial Institution.

The Sponsored Investment Vehicle must satisfy the following criteria:

- it does not hold itself out as an investment vehicle for unrelated parties; and
- it has 20 or fewer individuals that own directly or indirectly its debt and equity interests, disregarding debt interests owned by Participating Financial Institutions, Registered and Certified Deemed Compliant Financial Institutions and the equity interest owned by an entity that owns 100% of the equity and itself is a Sponsored closely held Investment Vehicle.

### **3.3.5. *Investment advisers and Investment Managers***

An Investment Entity established in the TCI that is a Financial Institution solely because it:

- renders investment advice to, and acts on behalf of; or
- manages portfolios for, and acts on behalf of

a customer for the purposes of investing, managing or administering funds deposited in the name of the customer with a Financial Institution other than a Non-participating Financial Institution. This includes entities which delegate all or part of their management and advisory obligations to a third party whether in or outside of the TCI.

An entity that also conducts other businesses that are ancillary to rendering investment advice or managing portfolios (for example, acts as a general partner to a Limited Partnership) will not jeopardize its status as a Certified Deemed Compliant Financial Institution. Investment advisors who solely render investment advice to customers and do not otherwise undertake investment

services or maintain financial accounts are likely to be NFFEs on the basis that they are service providers and will not meet the financial assets test.

### **3.3.6. Limited Life Debt Investment Vehicles (US Regs 1471-5(f) (2) (IV))**

These are transitional rules that apply to certain limited life debt investment entities. A Financial Institution that meets the requirements of this Section will be treated as deemed-compliant until, and including, 31 December 2016. From 1 January 2017, the usual rules that relate to Financial Institutions will apply.

This Section applies where the Financial Institution is the beneficial owner of the payment, or of payments made with respect to the account, and the Financial Institution meets the following requirements:

- (a) The Financial Institution is an investment entity that issued one or more classes of debt or equity interests to investors pursuant to a trust indenture, trust deed or similar agreement and all of such interests were issued on or before January 17, 2013;
- (b) The Financial Institution was in existence as of January 17, 2013, and has entered into a trust indenture, trust deed or similar agreement that requires the Financial Institution to pay to investors holding substantially all of the interests in the Financial Institution, no later than a set date or period following the maturity of the last asset held by the Financial Institution, all amounts that such investors are entitled to receive from the Financial Institution;
- (c) The Financial Institution was formed and operated for the purpose of purchasing or acquiring specific types of debt instruments or interests therein and holding those assets subject to reinvestment only under prescribed circumstances to maturity; and
- (d) Substantially all of the assets of the Financial Institution consist of debt instruments or interests therein.

The term "substantially all" means 80% or more of all the assets by value.

The term "debt instruments" includes notes, bonds, loans, promissory notes, certificates of deposit, loan stock, debentures and any other instrument creating or acknowledging indebtedness. Cash held by the Financial Institution should also be treated as being a debt instrument for this purpose. The term "interests therein" includes (a) equity interests in wholly owned subsidiaries that own debt instruments; (b) any equity interests in an entity which invests only in debt instruments such as a money market fund; (c) credit default or total return swaps which reference debt instruments.

A Financial Institution should apply this test when the proceeds of the debt or equity interests issued to investors have been fully invested and not during any ramp up or winding down period.

- (e) All payments made to the investors of the Financial Institution (other than holders of a de Minimis interest) are either cleared through a clearing organization or custodial institution that is a participating Financial Institution, Reporting Model 1 FI, or U.S. Financial Institution or made through a transfer agent that is a Participating FFI, Reporting Model 1 FI, or U.S. Financial Institution;

- (f) The Financial Institution's trustee or fiduciary is not authorized under the applicable trust indenture, trust deed or similar agreement through a fiduciary duty or otherwise to fulfil the obligations of a Participating FI under 1.1471-4 and no other person under that agreement has the authority to fulfil the obligations of a Participating FI under 1.1471-4 on behalf of the Financial Institution.

The reference to the Financial Institution's fiduciary does not include the Financial Institution's board of directors or, in the case of an exempted limited partnership, the general partner.

Where a Financial Institution has issued all of its debt or equity interests to investors on or before 1 March 2010, the requirement in (f) will be deemed to have been met and therefore assuming all other requirements in (a) to (e) are met, the Financial Institution can be treated as a LLDIE.

For Financial Institutions which have issued debt or equity interests to investors after 1 March 2010 - In determining whether or not the Financial Institution's trustee or fiduciary is authorized as contemplated by (f), the ability of the Financial Institution and/or the trustee or fiduciary to make amendments to the trust indenture, trust deed or similar agreement to give the trustee or fiduciary the necessary authority without investor consent shall be treated as the trustee or fiduciary being so authorized for the purposes of (f) (and therefore the Financial Institution should not be treated as an LLDIE).

Any wholly owned subsidiary formed by an LLDIE for the purpose of holding assets for the benefit of the LLDIE shall also be deemed to be an LLDIE for these purposes.

### ***3.3.7 Sponsored Investment Entities and Controlled Foreign Corporations (US Regs 1471-5(f) (1) (i) (F))***

This category consolidates the due diligence, reporting and withholding for a group of Financial Institutions into, for example, a trustee, fund manager, fund administrator, general partner, transfer agent or US financial institution (with regard to its controlled foreign corporations), being the Sponsoring Entity.

A Sponsored Investment Entity is an entity that has a contractual arrangement for its due diligence and reporting responsibilities to be carried out by a Sponsoring Entity. A Sponsoring Entity does not need to be a Financial Institution and does not need to be otherwise registered with the IRS as a Reporting Financial Institution (although, as noted below, it will need to register with the IRS as a Sponsoring Entity).

A Sponsored Investment Entity is an Investment Entity, which is not a US Qualified Intermediary, Withholding Foreign Partnership or Withholding Foreign Trust, that has authorized another entity, the Sponsoring Entity, to act on its behalf.

The Sponsoring Entity must register with the IRS as a Sponsoring Entity and must register each of the Sponsored Investment Entities that it is authorized by to the extent that the Sponsored Investment Entities hold US Reportable Accounts. The Sponsoring Entity must undertake all of the FATCA compliance, including account identification and documentation, on behalf of the Sponsored Investment Entities for which it acts, or where appropriate it can use a third party to undertake the obligations on its behalf. The Sponsoring Entity will need to ensure that new account holders in the Sponsored Investment Entities that it is authorized by are appropriately

documented.

Where a Sponsoring Entity acts on behalf of a range of Sponsored Investment Entities, the classification of an account as a New Account or a Pre-Existing Account can be done by reference to whether the account is new to the Sponsoring Entity (e.g. the fund manager) and not the Sponsored Investment Entity (e.g. the fund). This will avoid the need for a Sponsoring Entity to have to obtain documentation from the same account holder repeatedly, where that account holder is invested in more than one of the Sponsored Investment Entities.

Where a Sponsoring Entity is able to link accounts held by the same account holder, the accounts will need to be aggregated for the purposes of determining whether the account is a low or high value account. See 12.14 for more information on aggregation of accounts.

A Turks & Caicos Islands Sponsoring Entity will report on all US Reportable Accounts held by the Sponsored Investment Entities that it sponsors.

See Section 7 for more information on how this relates to collective investment vehicles including the reporting of offshore funds and multiple service providers.

### ***3.3.8 Financial Institution with a Local Client Base (US Regs 1.1471-5(f) (1) (i) (A))***

All of the following criteria must be met before a Financial Institution can be treated as a Local Client Base Financial Institution. A Financial Institution should self-assess whether it meets these criteria and maintain appropriate records to support its assessment. The criteria are listed below:

- a) The Financial Institution must be licensed and regulated under the laws of the Turks & Caicos Islands.
- b) The Financial Institution must have no fixed place of business outside the Turks & Caicos Islands other than where the location outside of the Turks & Caicos Islands houses solely administrative functions and is not publically advertised to customers. This applies even if the fixed place of business is within a jurisdiction that has entered into an IGA with the US.
- c) The Financial Institution must not solicit potential Financial Account holders outside the Turks & Caicos Islands. For this purpose, a Financial Institution shall not be considered to have solicited such customers outside of the Turks & Caicos Islands merely because it operates a website, provided that the website does not specifically indicate that the Financial Institution provides accounts or services to non-Turks & Caicos Islands residents or otherwise target or solicit US customers.

A Financial Institution will also not be considered to have solicited potential Financial Account holders outside of the Turks & Caicos Islands if it advertises in either print media or on a radio or television station and the advertisement is distributed or aired outside of the Turks & Caicos Islands, as long as the advertisement does not specifically indicate that the Financial Institution provides services to non-residents. Also a Financial Institution issuing a prospectus will not, in itself, amount to soliciting Financial Account holders, even when it is available to US Persons in the Turks & Caicos Islands. Likewise, publishing information such as Reports and Accounts to comply with the Listing Rules, Disclosure Rules and Transparency or AIM rules to support a public listing or quotation of shares will not amount to soliciting customers outside the Turks & Caicos Islands.

- d) The Financial Institution is required to identify whether account holders are resident in the Turks & Caicos Islands as part of its AML/KYC procedures
- e) At least 98 per cent of the Accounts by value, provided by the Financial Institution must be held by people who reside in the Turks & Caicos Islands.

The 98 per cent threshold can include the Accounts of US Persons if they are resident in the Turks & Caicos Islands. It applies to both Individual and Entity Accounts. A Financial Institution will need to assess whether it meets this criteria annually. The measurement can be taken at any point of the preceding calendar year for it to apply to the following year, as long as the measurement date remains the same from year to year.

- f) Subject to subparagraph g) below, beginning on 1 July 2014, the Financial Institution does not provide Financial Accounts to:
  - o any Specified US Person who is not a resident of the Turks & Caicos Islands (including a US Person that was a resident of the Turks & Caicos Islands when the account was opened, but subsequently ceases to be a resident of the Turks & Caicos Islands);
  - o a Non-Participating Financial Institution; or
  - o any Passive NFFE with Controlling Persons who are US citizens or resident for tax purposes who are not resident in the Turks & Caicos Islands.

Where a Local Client Base Financial Institution provides Financial Accounts to US citizens who are resident in the Turks & Caicos Islands, these Financial Accounts do not need to be reported to the Exchange of Information Unit unless the account holder subsequently ceases to be a resident of the Turks & Caicos Islands.

- g) On or before 1 July 2014, the Financial Institution must implement policies and procedures to establish and monitor whether it provides (meaning opens and maintains) Financial Accounts to the persons described in subparagraph (f) above. If any such Financial Account is discovered, the Financial Institution must either report that account as though the Financial Institution were a Reporting Turks & Caicos Islands Financial Institution, or close the account, or transfer the account to a Participating Foreign Financial Institution, Reporting Model 1 Foreign Financial Institution or a US Financial Institution.

This means that even if Financial Accounts have been provided to Specified US Persons, a Non-Participating Financial Institution or any Passive NFFE with Controlling Persons who are US citizens or residents prior to 1 July 2014, the Financial Institution can still be a Financial Institution with a Local Client Base provided that the appropriate reporting is carried out.

- h) With respect to each Financial Account that is held by an individual who is not a resident of the Turks & Caicos Islands or by an entity, and that is opened prior to the date that the Financial Institution implements the policies and procedures described in subparagraph (g) above, the Financial Institution must review those accounts in accordance with the procedures applicable to Pre-existing Accounts, described in Annex I of the Agreement, to identify any US Reportable Account or Financial Account held by a Non-Participating Financial Institution. Where such accounts are identified, they must be closed, or transferred to a Participating Foreign Financial Institution, Reporting Model 1 Foreign Financial Institution or a US Financial Institution or the Financial Institution must report

those accounts as if it were a Reporting Turks & Caicos Islands Financial Institution. This allows a Financial Institution with a Local Client Base to maintain its status whilst reporting on relevant Financial Accounts that were opened prior to the adoption of the requirements set out in this section. This means that where a Local Client Base Financial Institution has a Reportable Account then it is required to register and report (or close) the account.

- i) Each Related Entity of the Financial Institution, where the Related Entity is itself a Financial Institution must be incorporated or organized in the Turks & Caicos Islands and must also meet the requirements for a Local Client Base Financial Institution with the exception of a retirement plan classified as an Exempt Beneficial Owner.
- j) The Financial Institution must not have policies or practices that discriminate against opening or maintaining accounts for individuals who are Specified US Persons and who are residents of the Turks & Caicos Islands.

### **3.3.9 Qualified credit card issuers (US Regs 1471-5(f) (1) (i) (E))**

A qualified credit card holder is an entity that:

- is a Financial Institution solely because it is an issuer of credit cards that accepts deposits only when a customer makes a payment in excess of a balance due with respect to the card and the overpayment is not immediately returned to the customer; and
- by the later of 30 June 2014, or the date it registers as a Deemed Compliant Financial Institution, implements policies and procedures to either prevent a customer deposit in excess of \$50,000 or to ensure that any customer deposit in excess of \$50,000 is refunded to the customer within 60 days. The terms applying to qualified credit card issuers also apply to other card and Electronic Money Issuers.

### **3.4. Owner Documented Financial Institutions (US Regs 1471-5(f) (3))**

This category is intended to reduce the burden of meeting the obligations under the Agreements for closely held passive investment vehicles that fall within the definition of Investment Entity. It is not however restricted to those cases.

In order to qualify under this category the Investment Entity must satisfy the following:

- It must not maintain a Financial Account for any Non-Participating Financial Institution;
- It must not be owned by, nor be a member of, a group of Related Entities with any member that is a Depository Institution, Custodial Institution or Specified Insurance Company (i.e. it can only be affiliated to other Investment Entities); and
- It must provide the required documentation regarding its owners and agree to notify any changes in its circumstances to the Financial Institution that is undertaking the reporting obligations on its behalf.

The Financial Institution that has agreed to undertake the reporting obligations on behalf of the Investment Entity must also agree to report the information relating to Specified Persons. The Financial Institution will not be required to report any information in regards to any indirect

owner that holds its interest through a Participating Financial Institution, Model 1 Financial Institution, Deemed Compliant Financial Institution (other than another Owner Documented Financial Institution), an entity that is a US Person, an Exempt Beneficial Owner or an Excepted NFFE.

## **4. NON-REPORTING FINANCIAL INSTITUTIONS – UK AGREEMENT ONLY**

### **4.1. General**

The concept of Non-Reporting Financial Institutions applies to both Agreements (see Section 3.4). This section deals with those entities that are treated as Non-Reporting Financial Institutions by virtue of Annex II of the UK Agreement.

### **4.2. Small or Limited Scope Financial Institutions that Qualify as Non-Reporting TCI Financial Institutions.**

The following Financial Institutions are Non-Reporting TCI Financial Institutions:

#### ***4.2.1. Local Credit Unions***

A Financial Institution satisfying all of the following requirements:

1. The Financial Institution carries on business solely as a Credit Union;
2. It is licensed and regulated under the laws of the TCI;
3. It has no fixed place of business outside of the TCI; *and*
4. All accounts maintained by the Financial Institution are held by residents of the TCI.

#### ***4.2.2. Financial Institution with Only Low-Value Accounts***

A Turks & Caicos Islands Financial Institution satisfying the following requirements:

1. The Financial Institution is not an Investment Entity;
2. No Financial Account maintained by the Financial Institution or any Related Entity has a balance or value in excess of \$50,000, applying the rules set forth in paragraph C of section VI Annex I for account aggregation and currency translation; and
3. The Financial Institution does not have more than \$50 million in assets on its balance sheet, and the Financial Institution and any Related Entities, taken together, do not have more than \$50 million in total assets on their consolidated or combined balance sheets.

#### ***4.2.3. Qualified Credit Card Issuer***

A Turks and Caicos Islands Financial Institution satisfying the following criteria:

1. The Financial Institution is a Financial Institution solely because it is an issuer of credit cards that accepts deposits only when a customer makes a payment in excess of a balance due with respect to the card and the overpayment is not immediately returned to the customer; and
2. Beginning on or before 1 July 2014, the Financial Institution implements policies and procedures to either prevent a customer from depositing in excess of \$50,000, or to

ensure that any customer deposit in excess of \$50,000, is done within the rules set forth in Annex I for account aggregation and currency translation. Where a customer deposits in excess of \$50,000 that must be refunded to the customer within 60 days. For this purpose, a customer deposit does not refer to credit balances to the extent of disputed charges but does include credit balances resulting from merchandise returns.

### **4.3. Investment Entities that Qualify as Non-Reporting Turks & Caicos Islands Financial Institutions and Other Special Rules.**

The Financial Institutions described in paragraphs 4.3.1 through 4.3.5 of this section are Non-Reporting TCI Financial Institutions. In addition, paragraph 4.3.6 of this section provides special rules applicable to an Investment Entity.

#### ***4.3.1. Trustee-Documented Trust***

A trust resident in the TCI to the extent that the trustee of the trust is a Reporting TCI Financial Institution and reports all information required to be reported pursuant to the Agreement with respect to all UK Reportable Accounts of the trust.

#### ***4.3.2. Sponsored Investment Entity***

A Financial Institution described in point 1 below having a Sponsoring Entity that complies with the requirements of point 2.

1. A Financial Institution is a Sponsored Investment Entity if (a) it is an Investment Entity established in the TCI; and (b) an Entity has agreed with the Financial Institution to act as a Sponsoring Entity for the Financial Institution;
2. The Sponsoring Entity is authorized to act on behalf of the Financial Institution (such as fund manager, trustee or managing partner) and complies with the following requirements:
  - a) The Sponsoring Entity is a TCI Financial Institution;
  - b) The Sponsoring Entity performs, on behalf of the Financial Institution in regard to its responsibilities under the Agreements and the Regulations, all due diligence, reporting and other requirements that the Financial Institution would have been required to perform if it were a Reporting TCI Financial Institution;
  - c) The Sponsoring Entity identifies the Financial Institution in all reporting completed on the Financial Institution's behalf; **and**
  - d) The Sponsoring Entity has notified the TCI Competent Authority of its status as a sponsor in respect of the Financial Institution and has not had its status as a sponsor revoked by the TCI Competent Authority.

#### **4.3.3. *Sponsored, Closely Held Investment Vehicle***

A TCI Financial Institution satisfying the following requirements:

1. The Financial Institution is a Financial Institution solely because it is an Investment Entity;
2. The sponsoring entity is a Reporting TCI Financial Institution, is authorized to act on behalf of the Financial Institution (such as a professional manager, trustee, or managing partner), and agrees to perform, on behalf of the Financial Institution, all due diligence, reporting and other requirements that the Financial Institution would have been required to perform if it were a Reporting TCI Financial Institution;
3. The Financial Institution does not hold itself out as an investment vehicle for unrelated parties;
4. Twenty or fewer individuals own all of the debt interests and Equity Interests in the Financial Institution disregarding debt interests owned by Financial Institutions and Equity Interests owned by an Entity if that Entity owns 100 per cent of the Equity Interests in the Financial Institution and is itself a sponsored Financial Institution described in this paragraph; and
5. The sponsoring entity complies with the following requirements:
  - a) The sponsoring entity is a TCI Financial Institution;
  - b) The sponsoring entity agrees to perform, on behalf of the Financial Institution, all due diligence, reporting and other requirements that the Financial Institution would have been required to perform if it were a Reporting TCI Financial Institution and retains documentation collected with respect to the Financial Institution for a period of six years;
  - c) The sponsoring entity identifies the Financial Institution in accordance with the applicable registration requirements of the TCI Competent Authority in all reporting completed on the Financial Institution's behalf; **and**
  - d) The sponsoring entity has notified the TCI Competent Authority of its status as a sponsor in respect of the Financial Institution and has not had its status as a sponsor revoked by the TCI Competent Authority.

#### **4.3.4. *Investment Advisors and Investment Managers***

An Investment Entity established in the TCI, the sole activity of which is (1) to render investment advice to, and act on behalf of, or (2) to manage portfolios for, and act on behalf of, a customer for the purposes of investing, managing, or administering funds deposited in the name of the customer with a Financial Institution.

#### **4.3.5. *Collective Investment Vehicle***

An Investment Entity established in the TCI that is regulated as a collective investment vehicle, provided that all of the interests in the collective investment vehicle (including debt interests in excess of \$50,000) are held by or through one or more exempt beneficial owners or Active NFFEs

described in subparagraph B.6. of section VI of Annex I of the UK Agreement.

***4.3.6. Special Rules for reporting interests of Investment entities in Collective Investment Vehicles***

The following rules apply to an Investment Entity:

1. Where an Investment Entity (other than a Financial Institution through which interests in the collective investment vehicle are held) has an interest in a collective investment vehicle as described in paragraph 4.3.5. of this section, the reporting obligations of that Investment Entity in respect of its interest in that collective investment vehicle shall be deemed to have been met.
2. Consistent with paragraph 3 of Article 4 of the Agreement (third-party service providers), for interests held in an Investment Entity established in the TCI that is not as described in paragraph 4.3.5. of this section, the reporting obligations of all Investment Entities with respect to their interests in that TCI Investment Entity shall be deemed to be satisfied if the information required to be reported under the Agreement with respect to all such interests is reported by the TCI Investment Entity itself or another person.

## **5. EXEMPTIONS**

### **5.1. General**

Entities regarded as Exempt Beneficial Owners (and therefore Non-Reporting Financial Institutions) and Excluded Accounts are set out in Annex II to the US and UK Agreement. This section sets out those entities and products that are treated as Exempt Beneficial Owners and excluded from the definition of Financial Account under the Agreements but this is not an exhaustive list. Consideration should be given to the criteria set out in the Annexes noted and if the entity or product qualifies, it will be treated as exempt. If any such entities or products are identified and not listed below, please contact the Exchange of Information Unit for inclusion.

Exempt Beneficial Owners do not need to register for a GIIN.

The exemptions apply to both Agreements unless otherwise stated.

### **5.2. Governmental Entities**

This includes the Government of the Turks & Caicos Islands, the Financial Services Commission and any other political subdivision of the TCI (which, for avoidance of doubt, includes a state, province, county or municipality), or any wholly owned agent or instrumentality of the TCI or any one or more of the foregoing (each a “Turks and Caicos Islands Governmental Entity”).

This category is comprised of integral parts, controlled entities and political subdivisions of the Turks & Caicos Islands (each as defined in the IGA).

### **5.3 International Organization**

This category includes any intergovernmental Organization (including a supranational Organization) (1) that has in effect a headquarters agreement with the Turks and Caicos Islands; and (2) the income of which does not inure to the benefit of private persons.

### **5.4 Retirement Funds**

Broad and Narrow Participation Retirement Funds which meet the criteria set out in Annex II of the Agreements are treated as Non-Reporting TCI Financial Institutions for the purposes of the Agreements.

### **5.5 Pension Fund of an Exempt Beneficial Owner**

A fund established in the Turks and Caicos Islands by an exempt beneficial owner to provide retirement, disability, or death benefits to beneficiaries or participants that are current or former employees of the exempt beneficial owner (or persons designated by such employees), or that are not current or former employees, if the benefits provided to such beneficiaries or participants are in consideration of personal services performed for the exempt beneficial owner.

## **5.6 Investment Entity Wholly Owned by Exempt Beneficial Owners**

An Entity that is a Turks and Caicos Islands Financial Institution solely because it is an Investment Entity, provided that each direct holder of an Equity Interest in the Entity is an exempt beneficial owner, and each direct holder of a debt interest in such Entity is either a Depository Institution (with respect to a loan made to such Entity) or an exempt beneficial owner.

## 6. TRUSTS

This Section applies to all Turks & Caicos Islands resident trusts regardless of nature except for Collective Investment Vehicles established as a trust which are treated differently (see Section 7) or trusts that are treated as exempt (see Section 5).

References in the rest of this Section to a trust are to a TCI resident trust unless otherwise specified. See Section 6.2 for definition of TCI resident trust.

***NOTE: Any corporate trustee that is considered to be a Financial Institution in its own right will have registration obligations under the US Agreement even if no Specified US Persons are identified in relation to the trusts that they manage or administer.***

### 6.1. How do the Agreements apply to TCI trusts?

The reporting obligations imposed under the Agreements only apply to TCI resident trusts where one of the following is identified as a Specified Person (see Section 1.6 for definition of Specified Person):

- settlor;
- beneficiary or class of beneficiary trustee;
- any other natural person exercising ultimate effective control over the trust

If any of the above is identified as a Specified Person, information in relation to the trust may need to be reported. How this is reported, and by whom, will depend on whether the trust is a Financial Institution or a Non-Financial Foreign Entity (NFFE). How trusts are categorised and the extent to which registration or reporting is required will be determined by a number of factors as set out in the following Sections.

If none of the above is identified as a Specified Person, no further reporting action is required in respect of the trust (although as noted above, a corporate trustee a Financial Institution and may be required to register with the IRS under the US Agreement).

### 6.2. What is a TCI resident trust?

A trust is resident in TCI, for the purpose of the Agreements, if it has a TCI resident trustee even if there are no TCI settlors, beneficiaries or protectors. Where such a trust physically conducts business it is not relevant to this analysis. A trustee will be considered resident if, being a corporate trustee, it is incorporated, registered or licensed in the TCI (including entities licensed under the Company & Trust Ordinance and any regulations made thereunder). And includes all subsidiaries of such license which are authorized to carry on business under that license or, in the case of an individual trustee, the person is resident in the TCI;

Accordingly a trust which is established or governed under TCI law or administered in the TCI but has no TCI resident trustees does not fall within the scope of the Agreements (save for the definition of a Trustee Documented Trust under the US Agreement – see section 3.3.1).

### **6.3. Multijurisdictional Trustees**

In circumstances where there are trustees in different jurisdictions, there is a risk of duplicate reporting. The Reporting TCI Financial Institution/TCI resident trustee must undertake the reporting obligations in respect of a TCI resident trust, where required, unless it has actual knowledge that the information that is required to be reported under the Agreements is being reported by another Financial Institution, whether that Financial Institution is a TCI Financial Institution or not.

A TCI resident trustee will have actual knowledge where they hold written confirmation from the trustee in the other jurisdiction that the trust has been reported for the purposes of the UK or US Agreement. There is no need for the TCI resident trustee in this case to report anything to the TCI Competent Authority in respect of that trust. This does not remove the responsibility for the trustee to ensure that a report has been made and so should it be determined that no report has been made by any Reporting Financial Institution in respect of a trust that is a Reportable Account then a report must be filed by the TCI resident trustee. Where the TCI resident trustee has received a written annual confirmation from the Reporting Financial Institution then the responsibility of the TCI resident trustee for reporting has been discharged.

### **6.4. How are trusts categorised for the purposes of the Agreements?**

It is first important to understand that the Agreements only apply to express trusts. Trusts which arise solely through operation of law are not treated as a separate entity for the purposes of the Agreements. Examples of such trusts include:

- A constructive trust imposed by the courts and usually arising from unconscionable dealing with property, profits from unlawful acts or unauthorized profits by a fiduciary;
- The trust which is created upon the death of an individual and the estate vesting in the personal representative of the deceased.

In addition, bare trusts including those arising under a nominee arrangement are not dealt with in this section (see section 7.4.1).

A trust is not a separate legal entity under the laws of the TCI. However, under the Agreements and the TCI Legislation it must be characterized as one of a number of different entities. In practice, the trustee is responsible for determining how each trust of which it is trustee should be characterized under the TCI Legislation.

A trust may either be a Financial Institution or a Non-Financial Foreign Entity (NFFE).

#### **6.4.1. Trusts as Investment Entities**

See Section 2.9 for a full definition of Investment Entity and the explanatory notes as to what is meant by “managed by”. As there are differing definition of Investment Entity, a trust could be an Investment Entity under one definition but not under another. It will be a policy decision of the entity to determine which definition will be applicable.

In practice, a trust that is “managed by” a corporate trustee, or any other Financial Institution, will be an Investment Entity under the IGA definition. If the trust is to use the US Regulations or CRS definitions then the trust must also satisfy the Financial Assets test as defined in Section 2.9. A trust may also be an Investment Entity if it otherwise qualifies as an Investment Entity as

defined in Section 2.9. Otherwise it will be an NFFE and its activity will determine whether it is a Passive or Active NFFE.

When using the US Regulations or CRS definitions of an Investment Entity, in determining whether a trust gross income is primarily attributable to Financial Assets, it is important to consider the underlying source of the income. For example, while a real estate trust may hold its property through companies and so receives its income in the form of dividends, the underlying activity is property holding which is not a financial asset for this purpose. The trust would not be an Investment Entity in this case.

The status of any trust that is not managed by a corporate trustee or another Financial Institution will be determined by its activity. It could still be a Financial Institution or a Passive or Active NFFE.

A trust that is managed by an individual will not be an Investment Entity under the “managed by” condition but may still be classified as an Investment Entity by virtue of its activity.

The holding of a Financial Account by the trustee, such as a bank account, with a Financial Institution where that Financial Institution does not participate in the management of the trust or Financial Assets does not in itself make the trust an Investment Entity.

***Example 1 Trust managed by an individual.***

X, an individual, establishes Trust A, for the benefit of X’s children, Y and Z. X appoints Trustee A, an individual, to act as the trustee of Trust A. Trust A’s assets consists solely of Financial Assets, and its income consists solely of income from those Financial Assets. Pursuant to the terms of the trust instrument, Trustee A manages and administers the assets of the trust. Trustee A does not hire any entity as a third-party service provider to perform any of the activities described in Section 2.9.1.

Under the IGA definition of an Investment Entity, Trust A is not an Investment Entity because it does not conduct as a business any of the IGA Defined Activities and it is not managed by a Financial Institution.

Under the US Regulations/CRS definition Trust A is not an Investment Entity because it is managed solely by Trustee A, an individual.

***Example 2 Trust managed by a trust company.***

The facts are the same as in Example 1, except that Trust Company, a Financial Institution, is appointed to act as trustee of Trust A. As trustee, Trust Company manages and administers the assets of Trust A in accordance with the terms of the trust instrument for the benefit of Y and Z.

Under the IGA definition, Trust A is an Investment Entity because it is managed by a Financial Institution.

Under the Regulations/CRS definition Trust A is an Investment Entity because it is managed by a Financial Institution and all of its income is attributable to Financial Assets.

### ***Example 3. Trust managed by a PTC***

The facts are the same as in Example 1, except that X appoints PTC, an unremunerated TCI business company, is appointed to act as trustee of Trust A and PTC carries on no other business but trust business and does not solicit business from the public.

As trustee, PTC manages and administers the assets of Trust A in accordance with the terms of the trust instrument for the benefit of Y and Z. Most PTCs are not remunerated for acting as trustee and may therefore not be a Financial Institution on the basis that they do not conduct a business.

Under the IGA definition, Trust A may not be an Investment Entity if it does not conduct as a business any of the IGA Defined Activities and it is not managed by a Financial Institution.

Under the US Regulations/CRS definition although all of Trust A's income is derived from Financial Assets, it is not an Investment Entity because it is managed solely by PTC, which would not be a Financial Institution for these purposes. However, it is acknowledged that it may be administratively convenient for a PTC to register as a Financial Institution even if it does not strictly fall within the definition of a Financial Institution as otherwise all of the individual trusts of which the PTC is trustee will not be able to utilize the Trustee Documented Trust or Certified Deemed Compliant exemption and will be required to report themselves and register with the IRS. Accordingly a PTC which does not fall strictly within the definition of a Financial Institution may still elect to be treated as a Financial Institution.

### ***Simplified reporting and registration requirements***

A trust that is an Investment Entity may be able to utilize one of the following categories of Financial Institution to simplify the registration and reporting process:

- A Trustee-Documented Trust (Section 6.4.1.1);
- A Sponsored Investment Entity (Section 6.4.1.2);
- Owner Documented Financial Institution (Section 6.4.1.3)

In these cases, the trust will be a Non-Reporting Financial Institution and also, for US Agreement purposes only, will be treated as Deemed Compliant.

If none of these categories apply, and the trust is not an NFFE, the trust will be a Reporting Financial Institution and will need to register and report in accordance with the rules that apply to Reporting TCI Financial Institutions as an Investment Entity (see section 2).

#### ***6.4.1.1. Trustee-Documented Trust***

If a trustee of a trust is any of the following:

- A Reporting UK Financial Institution;
- A Reporting US Financial Institution;
- A Reporting Turks and Caicos Islands Financial Institution;

- A Reporting Model 1 Financial Institution; or
- A Participating Foreign Financial Institution;

and the trustee agrees to report all the information required to be reported with respect to the trust, the trust may be treated as a Trustee-Documented Trust.

Under the US Agreement, the trust itself is not required to register. The trustee will register itself by virtue of being a Financial Institution but will not have to register the trust.

In practice, all TCI resident trusts that are managed by a TCI regulated corporate trustee may qualify as a Trustee-Documented Trust, provided that the trustee meets one or more of the requirements set out above.

#### ***6.4.1.2. Sponsored Investment Entity***

##### ***US Agreement***

Any trust that is an Investment Entity, even if professionally managed, may appoint a sponsor to undertake its due diligence, registration and reporting responsibilities, except where it is a withholding foreign trust in accordance with US Regulations.

If a sponsoring entity is appointed by a trust, no registration of the trust is required unless there is a US Reportable Account. If a US Reportable Account is identified, the sponsoring entity must register the trust on or before the 31 December 2015 or 90 days after the Reportable Account is identified. This contrasts with a Trustee-Documented Trust which is not required to be registered at any time.

See Section 3.2.1 for further information on the obligations of a sponsoring entity under the US Agreement.

##### ***UK Agreement***

Any TCI trust that is an Investment Entity, even if professionally managed, may appoint a TCI sponsoring entity to undertake its due diligence and reporting responsibilities. The TCI sponsoring entity must identify the trust in the reporting completed on behalf of the trust and notify the Exchange of Information Unit of its status as sponsor.

See section 4 for further information on the obligations of a sponsoring entity under the UK Agreement.

#### ***6.4.1.3. Owner Documented Financial Institution***

This option will be available under the US Agreement to trusts that are Investment Entities if appropriate. (See Section 3.4.)

#### **6.4.2. Trusts as NFFEs**

A trust that is not an Investment Entity is unlikely to be a Financial Institution and so will be an NFFE. Depending on the trust's activities, it will either be a Passive NFFE or an Active NFFE.

For further information on the reporting obligations in respect of these trusts, refer to the Section on NFFEs (Section 9).

- ***A Passive NFFE***

A trust that is not a Financial Institution and has 50% or more passive assets and/or income is treated as a Passive NFFE. See Section 9.4 for definition of passive income.

This might, for example, apply to a family trust that is not professionally managed and has no income or predominantly passive income. A trust, whether or not professionally managed, that only holds real estate for example, may be treated as a Passive NFFE.

- ***An Active NFFE***

A trust that is not a Financial Institution and satisfies the criteria as set out in Section 9 will be treated as an Active NFFE. There are no reporting requirements in respect of these trusts.

#### **6.5. Registration – US Agreement only**

***A trustee will be required to register in its own right if it is a Financial Institution even if it does not identify a Specified US Person in any of the trusts that it manages or administers.***

The registration requirements for trusts depend on how the trust is categorized.

If a trust is a Trustee-Documented Trust, the trustee is obliged to register in its own right as it is a Financial Institution. There is no requirement for details of the trust to be registered or disclosed.

If a trust utilizes the Sponsored Investment Entity category the sponsoring entity may have to register the trust in certain circumstances. See Section 6.4.1.2.

If a trust utilizes the Owner Documented Financial Institution category it does not have to register.

If a trust is treated as a Reporting TCI Financial Institution in accordance with Section 2.3 and does not utilize the Trustee-Documented Trust, Sponsored Investment Entity or Owner Documented Financial Institution categories, it is required to register.

There are no registration requirements for a trust treated as an NFFE (other than if the trust has elected to be classed as a "Direct-Reporting NFFE").

See Section 11 for further details on registration under the US Agreement. There are no registration requirements for any entity under the UK Agreement.

## **6.6. Reporting obligations**

If a trust utilizes the Trustee-Documented Trust, Sponsored Investment Entity or Owner Documented Financial Institution categories, it is a Non-Reporting TCI Financial Institution. For the purposes of the US Agreement only it will also be treated as Deemed Compliant. In both of these cases, the trustee, sponsoring entity or other Financial Institution that has taken on the reporting obligations, is responsible for reporting the information required under the Agreements (see Section 16 for general information on reporting).

If a trust is a Reporting TCI Financial Institution in its own right and cannot utilize any of the categories to make it a Non-Reporting TCI Financial Institution, it is required to undertake the reporting obligations.

A trustee or trust which is a Reporting TCI Financial Institution can use third party service providers to undertake the reporting on their behalf but the responsibility for reporting remains with the Reporting TCI Financial Institution.

If a trust is a Passive NFFE, the Financial Institution where the trust holds Financial Accounts will be required to undertake the necessary due diligence procedures to determine if the account is a Reportable Account.

## **6.7. Information to be reported – Trusts as Investment Entities**

This Section relates to trusts that are Investment Entities. Trusts that are NFFEs (other than Direct-Reporting NFFEs) do not have any reporting obligations themselves although any Financial Institution that holds a Financial Account for such a trust which has a Specified Person as a Controlling Person will need to report the information as set out in Section 9.

The equity interest in the trust is the Financial Account. The Financial Account will depend on the nature of the trust and the relationship between the trust and the account holder. In determining the value of the Financial Account consideration must be given to the value of the property which is subject to the Financial Account. This will include underlying companies and other assets owned by the trust in relation to the equity interest of the account holder.

Where any of the trust property is a non-financial asset, such as real estate which is considered to be a non-financial asset under the US Regulations, the value of this asset should be included in valuing the Reportable Account where it forms part of the account holder's equity interest in the trust.

Exempt Products can be excluded from valuing the Reportable Account where they form part of the account holder's equity interest in the trust but can be included if it is easier to do so due to the record keeping procedures of the trustee.

The following information must be reported in respect of any person listed in 6.1 who has been identified as a Specified Person.

- a) Name, address and TIN/National Insurance Number (where applicable);
- b) Account number or functional equivalent;
- c) Name and Global Intermediary Identification Number ('GIIN') of the Reporting Financial Institution;
- d) Equity Interest (balance or value) in the trust at the end of the calendar year or other appropriate reporting period;
- e) Total gross amount paid or credited to the Specified Person during the calendar year or other appropriate reporting period.

In practice, the following will be treated as having an equity interest in the trust and reporting will apply to those individuals who are identified as a Specified Person:

- (i) A settlor of the trust;
- (ii) A beneficiary that is entitled to a mandatory distribution (directly or indirectly) from the trust;
- (iii) A beneficiary that receives a discretionary distribution (directly or indirectly) from the trust in the calendar year; and
- (iv) Any person that exercises ultimate effective control over the trust.

The amounts reported under d) and e) above will depend on the nature of the trust and the interest held by the Specified Person. Sections 6.8 to 6.11 set out the amounts to be reported in each case. The amounts reported are not ascribable for the purposes of determining a tax liability.

### **6.8. Equity Interest (balance or value)**

The Equity Interest in a trust is the value of the proportion of the trust assets in which any person set out in 6.7 has an interest. The value of the Equity Interest will be the most recent value of the trust calculated by the Financial Institution and should include the value of all assets, financial and non-financial, but can exclude Exempt Products.

The total value of the assets of the trust must be consistent with that used by the trustee for valuation purposes and should be based on a recognized accounting standard. Listed securities should be valued at the appropriate market rate on the day concerned. Unlisted securities may be valued at the original book value unless another accounting basis was used by the trust for normal valuation purposes.

The Equity Interest attributable to the settlor of any settlor interested trust is the whole value of the trust. Where a settlor is excluded from the trust, the Equity Interest can be considered to be nil but will still be a Financial Account and hence reportable.

The Equity Interest of a beneficiary that is entitled to mandatory distributions (directly or indirectly) from a trust will be the net present value of amounts payable in the future and should

be measured on a recognized actuarial basis. It is recognized that this may be difficult and expensive to calculate in which case it is permitted to use the accounting net asset value of the assets in which the beneficiary has an interest.

For a discretionary trust, the Equity Interest attributable to a beneficiary in receipt of a distribution will be the amount of the distribution made in the relevant reporting year.

In the case of a pre-existing account, the amount of distributions (directly or indirectly) made to a discretionary beneficiary during the period 1 July 2013 to 30 June 2014 should form the basis of determining the value or balance of an equity interest attributable to the beneficiary as at 30 June 2014.

Where a discretionary beneficiary receives a distribution (directly or indirectly) after 1 July 2014, the equity interest in the trust may be treated as a pre-existing account if the beneficiary has received previous distributions (directly or indirectly) and the trustee has current KYC documentation on the beneficiary.

### **6.9. Aggregation of Equity Interest**

For the purposes of determining whether an Equity Interest in a trust represents a Low or High Value Account for due diligence purposes. It will be necessary for the trustee to aggregate all Equity Interests held by a Specified Person in any trust or other Financial Account managed by the trustee but only where:

- the Specified Person is identified in a computerized system by a client number or similar data element which links all accounts held by that person; and
- for determining only whether the aggregate balance or value of all accounts is a High Value Account, knowledge of the Specified Person's relationship manager, where applicable, identifies other accounts that are known to be directly or indirectly owned, controlled or established by the Specified Person.

This should include Financial Accounts held outside the trust but only to the extent that they can be identified and linked as set out above. This would include other Financial Assets held, for example, by other entities in the same group as the trustee where the accounts can be linked as set out above. Equity Interests in different trusts held by the same Specified Person, managed by the same Financial Institution and able to be linked through a computerized system should be aggregated.

Exempt Products and non-financial assets held outside the trust do not need to be aggregated.

Any assets held by the Specified Person that are not managed by the trustee do not need to be aggregated, even if the relationship manager has knowledge of those assets.

## **6.10. Amounts paid or credited to the Specified Person**

The amounts to be reported as paid or credited to a Specified Person are the total gross amounts paid or credited to any person who receives a mandatory or discretionary distribution from the trust, including aggregate payments in redemption of the account.

Amounts attributable for tax purposes to a settlor or other person are not treated as paid or credited to a Specified Person. In addition, the amounts reported are not ascribable for the purposes of determining a tax liability.

## **6.11. Treatment of companies underlying TCI resident trusts**

This Section is relevant for registration requirements under the US Agreement.

Where a trust that is a TCI Financial institution is treated as a Non-Reporting Financial Institution, then any underlying Related Entities (see Section 2.14) may also be treated as Non-Reporting Financial Institutions. In that case, the trustee of the trust will be the Reporting Financial Institution and will be required to report in respect of those companies.

Subject to being classified as Financial Institutions, underlying companies in the circumstances described above are not required to register although in certain circumstances may choose to register, for example where they require a GIIN to be recognized as a Financial Institution.

Alternatively, the company can be treated as a Sponsored Closely Held Investment Vehicle (provided it otherwise meets the conditions for such status), if the trustee reports on behalf of the company with the need for any formal authorization or agreement. The trustee will supply its Sponsor GIIN for the company in such cases.

## **6.12. Trusts that hold Non-Financial Assets**

Under the US Regulations or CRS definitions of an Investment Entity, a trust where at least 50% of its gross income is derived from non-financial assets (see section 2.9.2) will not be considered a Financial Institution. It will be deemed an NFFE. Where the non-financial asset is held through a company or other entity, it is possible to ignore the company/entity and treat the structure as a whole in determining whether the 'gross income' test is met.

This test applies to the three years ending 31 December of the year, preceding the year in which the determination is made or the period since commencement, whichever is shorter.

If a trust owns non-financial assets and financial assets, all of the trust's investments and activities will need to be considered when determining whether it is a Financial Institution or NFFE, and not just those that are carried out by the entity that holds the non-financial assets.

Alternatively the trust may use the IGA definition of an Investment Entity and disregard the necessity of considering the 'Financial Assets' test as detailed above.

This also applies to company holding structures where non-financial assets are held through subsidiary/nominee entities.

### **6.13. Employee Benefit Trusts (EBTs)**

EBTs should be considered in the same manner as any trust and categorized accordingly.

### **6.14. Nonprofessional trustees/family trusts/family offices**

The obligations of the trust and trustees will depend on the nature of the trust. Each trust will need to be analyzed to determine whether it is a Financial Institution or an NFFE.

A trust that is managed by an individual may not be a Financial Institution and so may be a Passive or Active NFFE depending on the nature of its activities.

### **6.15. Charitable trusts**

Under the US Agreement, TCI Charitable Trusts may be viewed as Active NFFEs under the religious, charitable, scientific, artistic, cultural or educational purposes clause (see section 9.3).

Under the UK Agreement, such trusts will also be viewed as Active NFFEs where all of the trust's beneficiaries are limited capacity exempt beneficial owners (see Section 5.5) and the trust 59 deed does not permit any income or assets to be distributed to, or applied for the benefit, of any person other than limited capacity exempt beneficial owners.

### **6.16. Unit trusts**

A unit trust that is a regulated or unregulated fund as defined in Section 7 will be treated as a Collective Investment Vehicle.

### **6.17. UK Resident Non Domiciled Specified UK Person – UK Agreement only**

This relates to the Alternative Reporting Regime (**ARR**) under the UK Agreement which is an optional regime. See Appendix 3 for further information on the ARR.

As noted above, the equity interest in a trust is the Financial Account which, if the settlor, beneficiary or person with ultimate effective control is a Specified UK Person, is the UK Reportable Account. This remains the case where that Specified Person is a UK Resident Non-Domiciled Person.

The Reporting TCI Financial Institution, which in the case of a professionally managed trust is the trustee, has to report gross payments and movement of assets from a UK source or from a jurisdiction that cannot be determined to the Reportable Account, i.e. the equity interest in the trust. It also has to report gross payments from the trust to a UK destination or destination in an undetermined jurisdiction.

No disclosure is required in respect of interest or other income arising in the trust.

## **7. COLLECTIVE INVESTMENT VEHICLES**

### **7.1. Definition of a Collective Investment Vehicle**

For the purposes of the Agreements, Collective Investment Vehicles includes any entity which is:

- (i) a fund as defined under the Mutual Funds Ordinance (**MFO**); or
- (ii) a closed-ended fund which is incorporated as a company, formed as a partnership or organized as a trust, under the laws of the TCI

Any entity treated as a Collective Investment Vehicle for these purposes will be an Investment Entity, and hence a Financial Institution under the definition in the Agreements (see Section 2.9).

Under the US Regulations and CRS definitions, the entity will need to consider its investment strategy and gross income position to determine whether it is defined as an Investment Entity. For example, a Collective Investment Vehicle that invests primarily in non-financial assets such as real property would not be defined as an Investment Entity under the US Regulations and CRS definitions (see Section 2.9).

### **7.2. How the Agreements apply to fund entities**

Investment entities, for the purposes of the Agreements resident in the Turks & Caicos Islands may include:

- Collective Investment Vehicles (as defined in the IDLO);
- Investment Managers (provides investment management services requiring a IDLO Category, C (Pension Schemes), or D (Insurance Products license);
- Fund Managers as defined in MFO (provides management services to funds and entities other than mutual funds and requiring a IDLO Category 3:A (Segregated Portfolios); B: (Mutual Funds) or E (Other Types of Investments) license;
- Mutual Fund Administrators as defined in MFO and requiring a IDLO Category 6: A (Investments Other than of Mutual Funds) or B (Investments of Mutual Funds) license;
- Transfer agents (requiring a IDLO Category 6: A or B license) ; and
- Depositories (custodians as defined in IDLO) requiring an IDLO Category 5: A or B license; and trustees of unit trusts.

However, the only Financial Accounts relevant to the Agreements are the Equity and Debt Interests issued in Collective Investment Vehicles.

Where an Investment Entity is a Collective Investment Vehicle constituted by a person, only the Collective Investment Vehicle will have reporting responsibilities in relation to the Financial Accounts (i.e. the Equity & Debt Interests) issued in that Collective Investment Vehicle.

Generally, any Investment Entity which is part of a fund structure other than:

- a Collective Investment Vehicle; or
- a manager or operator of a Collective Investment Vehicle that is not constituted as a person,

will not have any reporting responsibilities in relation to the interests in the Collective Investment Vehicle unless it is the trustee of a trustee-documented trust or is a Sponsoring Entity of a Sponsored Investment Entity with US Reportable Accounts.

### ***Example 1***

A fund administrator that only provides accounting services or Registrar and Transfer Agency services and does not otherwise have custody, control or hold assets on behalf of a Collective Investment Vehicle will not be considered to be administering funds or money on behalf of other persons by virtue of acting for a Collective Investment Vehicle. Nevertheless, a fund administrator may meet the definition of a Financial Institution by virtue of other activity and have registration and reporting obligations.

### **7.3. Reporting Obligations**

For US Reportable Accounts, if a Collective Investment Vehicle takes advantage of the Sponsored Investment Entity Financial Institution categories, it is a Non-Reporting TCI Financial Institution. In these cases, the sponsoring entity or other Financial Institution that has taken on reporting obligations is responsible for reporting the information required under the Agreement.

A Collective Investment Vehicle may look to delegate their obligations under the Agreements to a Third Party Service Provider. This arrangement is permitted by the Agreements, although ultimate responsibility may not be delegated and will remain with the Collective Investment Vehicle as the Reporting Financial Institution.

If a Collective Investment Vehicle is a Reporting TCI Financial Institution it will be subject to reporting requirements.

Various entities may fall within the definition of Investment Entity. However, provided the fund is a Collective Investment Vehicle, only the Collective Investment Vehicle will have obligations under the Agreements. The fund will need to determine which Investment Entity carries out the obligations to identify, verify and report on Account Holders that are Specified Persons, by reference to the principal documents, information particulars and other agreements by which the Vehicles are constituted.

### **7.3.1. Information to be reported**

This section relates to Collective Investment Vehicles that are Investment Entities.

The Reportable Account in a Collective Investment Vehicle is the Equity or Debt Interest issued in that Collective Investment Vehicle except where the interests are regularly traded on an established securities market.

The following information must be reported in respect of any person who has been identified as a Specified Person under the relevant Agreements.

The information to be reported is set out in Section 16, however the following provides clarification in regards to Collective Investment Vehicles.

- “Account balance or value” means Equity Interest (balance or value) in the Collective Investment Vehicle at the end of the calendar year or other appropriate period.
- The total gross amount paid or credited to the Account Holder (in respect of the Reportable Account) including the aggregate amount of any redemption payments, or similar type payments made to the Account Holder by the Collective Investment Vehicle in respect of the Reportable Account during the calendar year or other appropriate reporting period.

### **7.4. Related Entities**

Refer to Section 2.13 for information on Related Entities

### **7.5. Platforms and other distributors of Funds**

Fund distributors may include:

- Platform Agents/Distributors;
- Independent Financial Advisers;
- Fund platforms;
- Wealth managers;
- Brokers (including execution-only and prime brokers);
- Banks;
- Building societies;
- Members of an insurance group may fall within the definition of Investment Entity because of their role in distributing a Collective Investment Vehicle as defined for the purposes of the Agreement.

There are two different types of fund distributors:

- Those that act as an intermediary in holding the legal title to the interests in Collective Investment Vehicle (such as nominee); and

- Those that act on an advisory basis.

Where a customer appears on the Collective Investment Vehicle's register, the responsibility to report on that customer lies with the fund. As shown in the following example, if a customer invests via a fund platform, the responsibility to report on the customer may lie with the platform.

### *Example*

Fund platforms typically hold legal title to interests in a Collective Investment Vehicle on behalf of their customers (the investors). The platforms are nominees who can access the platform in order to buy and sell investments and manage their investment portfolio. The platform will back the customers' orders with holdings in the Collective Investment Vehicle, and possibly other assets. But only the platform will appear on the register of investors in the Collective Investment Vehicle. Where this is the case the platform will be responsible for reporting on its interests in the Collective Investment Vehicle as Financial Accounts.

Where financial advisers' activities do not go beyond the provision of investment advice to their customers, and/or acting as an intermediary between the Collective Investment Vehicle, and/or fund platform then they will not hold legal title to the assets and therefore are not in the chain of legal ownership of a Collective Investment Vehicle. Such financial advisers will not be regarded as the Financial Institution that maintains the Financial Account in regards to the accounts for which they provide advice (see 7.6.2 below).

A platform may have a 'mixed business' i.e. it acts as an adviser or 'pure intermediary' between the investor and the underlying Financial Institution (such as a Collective Investment Vehicle), on behalf of some customers. In addition, it also holds legal title to interests on behalf of other customers. In the case where legal title is held, the platform will be a Financial Institution with a reporting obligation in respect of those interests. From the platform's perspective it will not be treated as maintaining those accounts where it acts as an adviser or pure intermediary. This is consistent with the treatment of a Central Securities Depository.

#### ***7.5.1. Fund nominees- Distributors in the chain of legal ownership***

Distributors that hold legal title to assets on behalf of customers and are part of the legal chain of ownership of interests in Collective Investment Vehicles are deemed Financial Institutions. In most cases they will be Custodial Institutions because they will be holding assets on behalf of others.

When considering whether such a fund nominee (distributor) meets the condition requiring 20 per cent of the entity's gross income to be derived from the holding of financial assets and from related financial services, consideration should also be given as to whether the income derived from acting as nominee arises in another group company, or whether income is derived from commission, discounts or other sources. To clarify this rule the only business type which will consider whether income arises in another group for purposes of the Custodial Institution classification is fund nominees.

Fund nominees, fund intermediaries and fund platforms will nevertheless still be Financial Institutions because they would otherwise be within the definition of Investment Entity. In this case the Financial Accounts will be the Financial Accounts maintained by the distributor, and the distributor will be responsible for ensuring it meets its obligations in respect of those accounts.

The Exchange of Information Unit will treat fund nominees, fund intermediaries and fund platforms as Custodial Institutions unless specific factors indicate that their businesses will be better characterized as an Investment Entity. Normally, the primary business of a fund nominee, fund intermediary or fund platform will be to hold financial assets for the account of others.

For the purpose of aggregating accounts to determine whether any Pre-existing Custodial Accounts are below the de minimis threshold, a Custodial Institution will need to consider all the Financial Accounts of its customers without reference to whether the customers' underlying interests are in different Collective Investment Vehicles.

### **7.5.2. *Advisory only distributors***

Such distributors, which may include Financial Advisors, may nevertheless be asked by Financial Institutions to provide assistance in identifying Account Holders and obtaining self-certification.

For example, Financial Advisors will often have the most in-depth knowledge of the investor and direct access to the customer so will be best placed to obtain self-certifications. However, the Exchange of Information Unit does not recognize advisory in this regard. Only distributors as Financial Institutions will, only have obligations pursuant to contractual agreements with those Financial Institutions where they act as a third party service provider in relation to those Financial Accounts.

## **7.6. Deemed Compliant Collective Investment Vehicles**

Qualified Collective Investment Vehicles are treated as Registered Deemed Compliant Financial Institutions. (See Section 3.2)

Certain Collective Investment Vehicles are treated as Certified Deemed Compliant Financial Institutions. (See Section 3.3)

This category is intended to provide relief for Investment Entities that are owned solely through TCI Financial Institutions, Financial Institutions in an IGA jurisdiction, PFFIs under the US Regulations, or directly by large institutional investors not typically subject to FATCA withholding or reporting.

An Investment Entity with other types of investors may qualify as deemed compliant if it meets the requirements of a restricted fund. (See Section 3.2)

A Qualified Collective Investment Vehicle must be an Investment Entity and must be regulated as an Investment Entity in the TCI and every other country in which it operates. A Fund is considered to be regulated if its manager is regulated with respect to the Collective Investment Vehicle in all of the countries in which the Collective Investment Vehicle is registered and in all of the countries in which the investment fund operates.

A Qualified Collective Investment Vehicle's investors are limited to equity investors and direct debt investors with an interest greater than \$50,000. Financial Account Holders are limited to participating Foreign Financial Institutions, Registered Deemed Compliant Foreign Financial Institutions, and retirement funds classified as Exempt Beneficial Owners, US Persons that are

not Specified US Persons, Non-Reporting IGA Foreign Financial Institutions, or other Exempt Beneficial Owners.

Each member of the group of Related Entities must be a Participating Foreign Financial Institution, a Registered Deemed Compliant Foreign Financial Institution, a

Sponsored Foreign Financial Institution, a Non-Reporting IGA Foreign Financial Institution or an Exempt Beneficial Owner.

### **7.7. Restricted Funds**

Refer to 1.1475-5(f) (1) (i) (D) of the US Regulations.

### **7.8. Sponsored Investment Entities**

Any Financial Institution which is an Investment Entity, even if professionally managed, may appoint a sponsor to undertake all of its registration, due diligence and reporting responsibilities. The exception is where it is a Qualified Intermediary or Withholding Foreign Partnership or Withholding Foreign Trust in accordance with US Regulations. In doing so, the Financial Institution will become a Sponsored Investment Entity. A Collective Investment Vehicle's manager, for example, may be appointed as a sponsor to that Vehicle and in that capacity will be a sponsoring entity to the Collective Investment Vehicle.

In relation to the US Agreement, where a sponsoring entity has been appointed by a manager of a Collective Investment Vehicle, the sponsoring entity must register as such with the IRS.

A sponsor must undertake all due diligence and reporting obligations under the Agreements on behalf of the Sponsored Investment Entity (and where appropriate outsource such obligations to third party service providers). This will include account identification and documentation. A sponsor will need to ensure that new investors in the Vehicles it sponsors are appropriately documented for meeting its obligations as a sponsor and fulfilling all due diligence reporting obligations under the Agreements for the purposes of its Sponsored Investment Entities.

Where a sponsor acts on behalf of a range of Collective Investment Vehicles, the classification of an account as a New Account or Pre-existing Account can be done by reference to whether the account is new to the sponsor (e.g. the manager of the Collective Investment Vehicle) and not the Collective Investment Vehicle itself. This will prevent the manager from having to seek appropriate documentation from the same account holder repeatedly, where the account holder is invested in more than one of the Collective Investment Vehicles. Where a sponsor is able to link accounts in this manner, the account will also need to be aggregated.

Where the Sponsoring Entity subsequently identifies a US Reportable Account in respect of the Collective Investment Vehicle, the sponsoring entity must register the Sponsored Entity on or by the 31 December 2015 or 90 days after the US Reportable Account is identified.

If a Sponsoring Entity is appointed by an Investment Entity, no registration of the Sponsored Investment Entity is required, unless a US Reportable Account is identified.

The Sponsoring Entity will report to the Exchange of Information Unit on all of the Account Holders of the Sponsored Investment Entities.

### ***7.8.1. Sponsored Offshore Collective Investment Vehicles***

In practice, a manager may act for Collective Investment Vehicles located in a number of jurisdictions. When acting as Sponsor, the manager will need to act on behalf of the Sponsored Collective Investment Vehicle independently, with respect to, each tax authority in which they are domiciled.

#### ***Example 1***

A TCI fund manager manages funds that are located in the Turks and Caicos Islands (A), another Model 1 IGA Country (B) and a non-IGA Country, (C). The TCI manager can register as Sponsor for all or some of the Collective Investment Vehicles in each of these jurisdictions. The Sponsor would:

- Report to the TCI on behalf of the TCI Collective Investment Vehicle range (A);
- Report to the relevant authority in IGA Country (B) on behalf of the Collective Investment Vehicles domiciled there (subject to the law of Country B in relation to data protection, duties of confidentiality etc.); and
- Report directly to the IRS on behalf of the funds domiciled in the non-IGA country (C), (subject to the law of Country C in relation to data protection, duties of confidentiality, etc.).

### **7.9. Registration**

Current IRS Form 8957, relating to the registration process for FATCA, indicates that the application form makes reference to a Financial Institution's country for tax residence purposes.

Where the Financial Institution is a member of an Expanded Affiliated Group, current IRS procedures require that the lead of this group registers and has obtained their Global Intermediary Identification Number (GIIN) so that when other group members/ Related Entities are registering they are also able to use this information

See also section 17 which outlines the timetable for GIIN registration.

#### ***7.9.1. Equity & Debt Interest in an Investment Entity***

Where an Investment Entity is an asset manager, investment advisor or other similar Entity, then their Debt and Equity Interests issued in such Investment Entity, are excluded from being a Financial Account. This mirrors the treatment of Debt and Equity Interests in Entities that are solely Depository or Custodial Institutions.

Debt and Equity Interests (other than interests that are regularly traded interests) are only Financial Accounts in relation to those Entities that are Investment Entities because:

- the Entity's gross income is attributable to investing, reinvesting or trading in financial assets, and they are managed by a Financial Institution including another Investment Entity, **or**

- the Entity functions or holds itself out as a Collective Investment Vehicle, mutual fund, exchange traded fund, private equity fund, or any similar investment vehicle established with an investment strategy or investing, reinvesting or trading in financial assets.

In the case of a partnership that is a Financial Institution, the term Equity Interest means either a capital or profits interest in the partnership.

In the case of a unit trust that is a Financial Institution, an Equity Interest means an interest held by a unit holder.

A Specified Person under an Agreement shall be treated as being a beneficiary of a Trust if such a person has the right to receive directly, or indirectly a mandatory or discretionary distribution from the Trust.

#### ***7.9.2. Debt or Equity interest regularly traded on an established securities market***

For the purposes of the Agreements the term listed on a recognized stock exchange, in respect of shares and securities, will take its meaning as set out in Sections 10.9 in respect of the UK Agreement and Section 10.10 in respect of the US Agreement.

#### **7.10. Aggregation of Accounts**

For the purposes of determining whether an Equity or Debt Interest in a Collective Investment Vehicle represents a Low or High Value Account for due diligence purposes, it is necessary for the reporting TCI Financial Institution to aggregate all Equity and Debt Interests held by an identified Specified Person in any Financial Account. This must only be done for Financial Accounts which the Financial Institution is the Reporting Financial Institution and only where the accounts are linked by a computerized system.

For the purpose of aggregating accounts, in order to determine whether any Pre-existing Custodial Accounts are below the de minimis threshold (i.e. those maintained by the distributor), a Custodial Institution will need to consider all the Financial Accounts of its customers. This must be done without reference to whether the customer's underlying interests are held in different Collective Investment Vehicles.

#### **7.11 Transfer Agents or Service Provider**

Where a transfer agent or service provider has been appointed as FATCA services provider to a number of Financial Institutions, the transfer agent or service provider is not required to obtain due diligence documentation for each account held by the same investor where that investor maintains multiple accounts with that transfer agent or service provider. The transfer agent may obtain one set of FATCA due diligence documentation for an investor to validate the same investor's status in all Financial Institutions serviced by that transfer agent.

## 8. OTHER SPECIFIC VEHICLES

### 8.1. Partnerships

For the purposes of the Agreement, partnerships are regarded as an entity. The type of entity will depend on the activities undertaken by the partnership but a partnership may fall into any of the categories of Financial Institution. Where a partnership is a Financial Institution it will need to identify any Financial Accounts it holds, including any Equity Interest in the partnership itself. The Equity Interest will be the capital or profits interest in the partnership of any partners who are Specified Persons.

### 8.2. Securitization vehicles

Securitization structures are in many instances legally remote from the Financial Institution. This is particularly in relation to which risks and rewards the structures are associated. Typically, a securitization structure will include an issuing entity, funding entity, seller, mortgage trustee and often counterparties.

The common principles in Section 2 as to whether an entity meets the definition of a Financial Institution should be applied to all entities within a securitization structure. More specifically, the expectation would be that issuing entities are likely to be classified as Investment Entities on the basis of their activities. Trusts should be classified in accordance with the Trust principles set out within Section 2.37 and holding and funding entities will likely be treated as Financial Institutions in their own right. A securitization vehicle that is a Financial Institution will need to consider if it has any Financial Accounts that may be reportable. If there are no Financial Accounts a nil return is not required.

Those entities that are likely to fall within the definition of Investment Entity would include:

- collateralized loan obligation (**CLO**) or CLO transaction;
- collateralized debt obligation (**CDO**) or CDO transaction;
- a catastrophic bond or insurance linked securities transaction (**Cat Bonds**);
- a repackaging or other form of structured finance transaction where some form of financial assets or receivables are acquired from the proceeds of the notes or bonds issued to finance the transaction and repayment on those notes or bonds are made from and is limited to the financial assets of receivables (**Repacks**).

As a general matter any form of discretionary authority exercised by a third party manager of the SPV or granted by the SPV to an agent to the structure over the composition of the financial assets or receivables is sufficient for the SPV to be classified as an Investment Entity, there is no need for a formal investment management agreement to be in place. Furthermore, a SPV should also be classified as an Investment Entity where an agent is engaged (whether through a formal agreement or otherwise) to administer, monitor or service the financial assets or receivables of the SPV. (It should be noted that corporate administration services provided to a SPV by a corporate service provider acting in the ordinary course of its business would not ordinarily amount to 'administering' for the purposes of Article 1(j)(3) of the IGA.)

An entity within a structured finance structure which does not clearly fall either within or outside

of the definition of Investment Entity (including taking account of the guidelines provided above and below) may register as an Investment Entity and become a Reporting Turks & Caicos Islands Financial Institution.

Entities that may not fall within the definition of an Investment Entity include Asset Finance SPVs. Asset Finance SPVs are entities which own one or more aircraft, ships or other form of moveable asset of a similar nature and finance the acquisition of such asset(s) through debt financing. Such asset is then leased out to an operator, e.g. an airline. An Asset Finance SPV would also act as a pass through entity between the airline and the financiers and would not take any credit or repayment risk on the debt financing being repaid from receivables paid by the operator under the terms of the lease of the asset. As there is unlikely to be any form of discretionary authority over the assets as the asset(s) are identified prior to the Asset Finance SPV taking part in the transaction, and the Asset Finance SPV itself does not take any risk on the repayment, it is likely that the Asset Finance SPV will be categorised as a Passive NFFE.

Please note that as a Passive NFFE, the Asset Finance SPV would be required to certify whether it has any Financial Accounts held by Specified US Persons or Non-US Entities with Controlling Persons that are Specified Persons. In determining whether or not the Asset Finance SPV has any Specified Persons or Non-US/UK Entities with Controlling Persons that are Specified Persons, such entity shall be required to review its register of members to determine the holders of any shares (being the Turks & Caicos Islands equivalent to stock) and apply applicable Turks & Caicos Islands anti money laundering legislation in determining any beneficial owners of such shares.

Trusts should be classified in accordance with the trust principles set out within Section 6.

A structured finance vehicle that is a Financial Institution will need to consider if it has any Financial Accounts that may be reportable.

### **8.3. Personal Investment Companies**

Personal Investment Companies will need to consider whether they are within the definition of Investment Entity. Where a Personal Investment Company is managed by a Financial Institution it may be an Investment Entity; consideration must be given to the definitions of Investment Entity in Section 2.9.

### **8.4. Segregated Portfolio Companies, Umbrella Funds and Multi-issuance Entities**

Segregated Portfolio Companies, umbrella funds and multi-issuance entities may be considered as a whole and categorized accordingly.

It is not necessary to treat each portfolio or fund separately unless the entity wishes to do so. If one or more of such segregated portfolio, fund or series elects to avail itself of an exemption, such election shall not prevent the entity (as a whole) from electing to register and report in its own right with respect to its general assets and/or one or more other segregated portfolios, funds or series, as the case may be.

## **8.5 Capital Raising Subsidiary Entities**

Where a legal entity incorporates or establishes a subsidiary or affiliated entity that is incorporated or registered in the Turks & Caicos Islands for the purpose of raising capital (whether through the issue of Debt or Equity Interests) and that Turks & Caicos Islands entity on-lends the proceeds of such issuance to its parent entity or an affiliate thereof, the parent or affiliate is not to be regarded as the "customer" of the Turks & Caicos Islands entity and accordingly such Turks & Caicos Islands entity is not to be regarded as an Investment Entity (irrespective of whether it is managed by another Investment Entity).

## **9. NON FINANCIAL FOREIGN ENTITIES (NFFEs)**

### **9.1. General**

An NFFE is any non-US entity under the US Agreement and any non-UK entity under the UK Agreement that is not treated as a Financial Institution. In practice this will be applicable to any TCI company, partnership, trust, foundation or any other legal entity that is not a Financial Institution.

There are two categories of NFFE:

- a) Active NFFE; and
- b) Passive NFFE

An NFFE, whether Passive or Active, has no registration or reporting obligations. However, the entity is required to determine its FATCA/IGA classification. The entity is also required, where necessary, to self-certify its classification to the Financial Institution that maintains the NFFE's Financial Accounts. A Passive NFFE may also be required to obtain self-certification from a Controlling Person of that NFFE.

Passive NFFEs can however choose to be 'direct reporting NFFEs' and 'sponsored direct reporting NFFEs' as modified by the Temporary Regulations issued by the IRS in February of 2014. The definition of 'excepted NFFE' has been updated to include these two types of NFFEs.

An NFFE may be asked to certify its status as a Passive NFFE to a Financial Institution which holds a Financial Account for the NFFE. This is done in accordance with the due diligence obligations in Annex I of the Agreement.

A Financial Institution only has to report Financial Accounts that are held by Passive NFFEs with Controlling Persons that are Specified Persons. See Section 9.6.

### **9.2. Passive NFFE**

A Passive NFFE is any NFFE that is not:

- a) an Active NFFE; or
- b) in relation to the US Agreement, a withholding foreign partnership or withholding foreign trust.

### **9.3. Active NFFE**

An Active NFFE is any NFFE that meets any of the following criteria:

- a) Less than 50% of the NFFE's gross income for the preceding calendar year or other appropriate reporting period is passive income (see 9.4). Also less than 50% of the assets held by the NFFE during the preceding calendar year or other appropriate reporting period are assets that produce or are held for the production of passive income;
- b) The stock of the NFFE is regularly traded on an established securities market (see Section

12.9 for the US Agreement and 12.10 for the UK Agreement) or the NFFE is a Related Entity of an entity the stock of which is traded on an established securities market;

- c) In respect of the US Agreement only, the NFFE is organized in a US Territory and all of the owners of the payee are bona fide residents of that US Territory. A US Territory is defined in Article 1(1) (b) of the US Agreement;
- d) The NFFE is a government, a political subdivision of a government (which includes a state, province, county or municipality), an international organization, a non-US central bank of issue, or an entity wholly owned by one or more of the foregoing;
- e) Substantially all of the activities of the NFFE consist of holding, in whole or in part, the outstanding stock of, and providing financing and services to, one or more subsidiaries that engage in trades or businesses other than the business of a Financial Institution. An entity will not qualify as an active NFFE if the NFFE functions as, or holds itself out to be, an investment fund, such as a Private Equity Fund, Venture Capital Fund, Leveraged Buyout Fund or any Investment Vehicle whose purpose is to acquire or fund companies and then hold interests in those companies as capital assets for investment purposes. In these circumstances the entity will likely be an Investment entity;
- f) The NFFE is not yet operating a business and has no prior operating history, but is investing capital into assets with the intent to operate a business other than that of a Financial Institution; provided that the NFFE shall not qualify for this exception within twenty-four (24) months after the date of the initial organization of the NFFE;
- g) The NFFE was not a Financial Institution in the past five (5) years, and is the process of liquidating its assets, or is reorganizing with the intent to continue or recommence operations in a business other than that of a Financial Institution;
- h) The NFFE primarily engages in financing and hedging transactions with, or for Related Entities that are not Financial Institutions. The NFFE also does not provide financing or hedging services to any entity that is not a Related Entity, provided that the group of any such Related Entities is primarily engaged in a business other than that of a Financial Institution; **or**
- i) For the US Agreement **O N L Y** , the NFFE meets all of the following requirements:
  - (i) It is established and maintained in its country of residence exclusively for religious, charitable, scientific, artistic, cultural or educational purposes;
  - (ii) It is exempt from income tax in its country of residence;
  - (iii)It has no shareholders or members who have a proprietary or beneficial interest in its income or assets;
  - (iv)The applicable laws of the entity's country of residence or the entity's formation documents do not permit any income or assets of the entity to be distributed to, or applied for the benefit of, a private person or non-charitable entity other than pursuant to the conduct of the entity's charitable activities, or as payment representing the fair market value of property which the entity has purchased; **and**

- (v) The applicable laws of the entity's country of residence or the entity's formation documents require that, upon the entity's liquidation or dissolution, all of its assets be distributed to a governmental entity or non-profit organization, or escheat to the government of the entity's country of residence or any political subdivision thereof.

#### **9.4. Direct Reporting NFFEs and Sponsored Direct Reporting NFFEs**

In Notice 2013-69 and subsequent changes to the US Regulations, a new category of Passive NFFE was introduced – a Direct Reporting NFFE.

A Direct Reporting NFFE is described at §1.1472-1(c) (3) of the US Regulations and will be treated as an Excepted NFFE. It is a Passive NFFE that elects to report certain information about its direct or indirect substantial U.S. owners directly to the IRS as opposed to providing such information to the TCI Financial Institution at which an account is held.

The Direct Reporting NFFE will also be required to register with the IRS to obtain its GIIN.

The US Regulations also allow an entity to serve as a sponsor for one or more Direct Reporting NFFEs (Sponsored Direct Reporting NFFEs), which will require the sponsoring entity to report information about a Sponsored Direct Reporting NFFE's direct or indirect substantial U.S. owners directly to the IRS.

#### **9.5. Passive Income**

Passive income means income other than trading income and would include, for example:

- a) Distributions;
- b) Interest;
- c) Dividends;
- d) Income equivalent to interest, including amounts received in lieu of interest;
- e) Rents and royalties;
- f) Annuities;
- g) Foreign currency gains

Passive income does not include:

- a) Any income from interest, dividends, rents or royalties that is received or accrued from a related person if that amount is properly derived from income of that related person that is not passive income. For this purpose, related person has the meaning given to Related Entity (see Section 2.13), substituting person for entity.

#### **9.6. Value of assets**

For the purpose of this Section, the value of an NFFE's assets is the fair market value or book value of the assets that is reflected on the NFFE's balance sheet.

## **9.7. Controlling Person**

For this purpose, a Controlling Person means a natural person who exercises direct or indirect control over an entity. This term shall be interpreted in a manner consistent with the Financial Action Task Force (**FATF**) Recommendations. This includes the natural person on whose behalf a transaction is being conducted and those persons who exercise ultimate effective control by means of control other than direct control.

For trusts this includes the settlor, the trustees, the protector, the identifiable beneficiaries or class of beneficiaries and other natural person exercising ultimate and effective control over the trust.

In the case of any other legal arrangement, Controlling Person means a person in an equivalent or similar position.

For this purpose, and in relation only to NFFEs, a 25% ownership threshold applies for companies, partnerships, trusts and foundations. For trusts this would only apply to beneficiaries, settlors when they are also beneficiaries and protectors where they have the power to change the trustees, thereby influencing the distribution of trust assets.

## **9.8. Examples**

### ***Example 1***

A non-financial trading company that is managed by a corporate services provider may be an NFFE rather than an Investment Entity under the US Regulations and CRS definitions. Whether it is an Active or Passive NFFE would depend on the activity of the company.

### ***Example 2***

The holding company of a trading company that is an Active NFFE that only receives dividend income from that trading company and bank interest, would be treated as an Active NFFE. The income of the holding company is dividend income and so prima facie passive as defined, that dividend is sourced from income that is active in nature according to paragraph 9.3(a) above.

### ***Example 3***

A company that invests solely in real estate and receives rental income and realizes capital gains on the sale of such property would be a Passive NFFE. This is provided that either at least 50% of the income is rental income (Section 9.4(e) applies) or the capital gains arises from the sale of the property that generated the rental income.

### ***Example 4***

A real estate trust may be treated as a Passive NFFE, provided at least 50% of the gross income is passive income or at least 50% of the trust's assets produce passive income. This is notwithstanding that the trust is managed by an Investment Entity or the property is held through a company under the US Regulations and CRS definitions.

## 10. FINANCIAL ACCOUNTS

### 10.1. General

Under the Agreements, Reporting TCI Financial Institutions must provide information to the Exchange of Information Unit on an annual basis in relation to Financial Accounts held by Specified Persons. In the US Agreement these are referred to as US Reportable Accounts and in the UK Agreement as UK Reportable Accounts.

A Financial Institution, unless otherwise exempt, must identify:

- Whether it maintains any Financial Accounts;
- The type of Financial Account maintained; and
- Whether the account holder of those Financial Accounts is a Specified Person or a Passive NFFE with one or more Controlling Persons who is a Specified Person.

For the purposes of the Agreements, the term Financial Account is broadly defined and may include products or obligations that would not normally be regarded as a Financial Account in other TCI legislation or in everyday commercial use.

For the purposes of the Agreements, a Financial Account is an account that is maintained by a Financial Institution. See Section 10.1.1 for the meaning of ‘maintained’.

However, not all accounts held by the Financial Institution will be Financial Accounts for these purposes. Some products are exempt from the definition of Financial Account. See Section 5.

There are five categories of Financial Account:

- Depository Accounts (Section 10.3)
- Custodial Accounts (Section 10.4)
- Cash Value Insurance Contracts (Section 10.6)
- Annuity Contracts (Section 10.7)
- Equity and Debt Interests (Section 10.8)

Each category of Financial Account is subject to exclusions and exemptions and further details can be found in the relevant Sections indicated above.

For the purposes of reporting to the Exchange of Information Unit under the Agreements, the Financial Account must be a US or UK Reportable Account. In regards to Depository Account, Custodial Account, Cash Value Insurance or Annuity Contract, they must be maintained by a TCI Financial Institution.

Shareholdings and loan/debenture stock holdings can be ‘financial instruments/contracts’ and

are reportable if held in a Custodial Account (see Section 10.4).

Where a Financial Institution is acting as an executing broker that is simply executing trading instructions, or receiving and transmitting such instructions to another executing broker, (either through a recognized exchange, multilateral trading facility or non EU equivalent of such, a clearing organization or on a bilateral basis); that Financial Institution will not be required to treat the facilities established for the purposes of executing a trading instruction, or receiving and transmitting such instructions, as a Financial Account under the Agreements. The Financial Institution acting as custodian will be responsible for performing due diligence procedures and reporting where necessary.

In certain circumstances “placing agents” will typically acquire shares for a 2-3 day period (maximum 7 days) and hold these shares as nominee for an underlying investor. The placing agent will also have cash funds deposited by the investor for a similar period. The two would ultimately be matched and the shares delivered to the designated custodian of the investor. To eliminate the creation of a series of custodial accounts which would open and close in a 2-3 day window, and hence be potentially reportable, such funds will not be regarded as Financial Accounts provided that;

- The account is established and used solely to secure the obligation of the parties to the transaction.
- The account only holds the monies appropriate to secure an obligation of one of the parties directly related to the transaction, or a similar payment, or with a financial asset that is deposited in the account in connection with the transaction.
- The assets of the account, including the income earned thereon, is paid or otherwise distributed for the benefit of the parties when the transaction is completed.

#### ***10.1.1. Accounts ‘maintained’ by Financial Institutions***

In relation to each type of Financial Account, ‘maintained’ has the following meaning:

- A Depository Account is maintained by the Financial Institution which is obliged to make payments with respect to that account.
- A Custodial Account is maintained by the Financial Institution that holds custody over the account, including a Financial Institution that holds assets in the name of a broker (‘in street name’) for an account holder.
- An Insurance Contract or an Annuity Contract is maintained by the Financial Institution that is obligated to make payments with respect to the contract.
- Any Equity or Debt Interest in a Financial Institution, where that Equity or Debt Interest constitutes a Financial Account, is treated as being maintained by that Financial Institution where that Financial Institution is an Investment Entity.

A Financial Institution may maintain more than one type of Financial Account. For example, a Depository Institution may maintain Custodial Accounts as well as Depository Accounts.

When a Financial Account is created will depend on the type of account. An account will be

created when the Financial Institution is required to recognize the account based on existing operating procedures or under the regulatory or legal requirements of the jurisdiction in which it operates.

Where a customer exercises their cancellation rights (i.e. they cancel the account within the “cooling off” period) a Financial Account is created and the value to be reported (if reportable) is the closing value.

A Financial Account maintained by a non-TCI branch of a TCI Financial Institution is not reportable by the TCI Financial Institution.

### ***10.1.2. Reportable Accounts***

A Financial Account is a US Reportable Account where it is held by one or more Specified US Persons or by a non-US Entity with one or more Controlling Persons that are Specified US Persons.

A Financial Account is a UK Reportable Account where it is held by one or more Specified UK Persons or by a non-UK Entity with one or more Controlling Persons that are Specified UK Persons.

Where a Financial Institution engages a third party to carry out the Financial Institutions’ due diligence and reporting obligations then those obligations remain with the Financial Institution.

### ***10.1.3 Ceasing to be a Reportable Account***

If the account holder of a Reportable Account ceases to be a Specified US/UK Person, or the Controlling Persons of a Non-US/UK Entity ceases to be Specified US/UK Person, then the Financial Account will cease to be a Reportable Account.

If the account holder, or the Controlling Persons of a Non-US/UK Entity, are Specified US/UK Persons at any point in the reportable period then the Financial Account will be a Reportable Account for that period.

However, following a change in circumstance, if the Financial Institution is not in a position to review multiple statuses held during the reportable period when preparing its return (for instance if the account holder has had one or more changes in address) then the Financial Institution should treat the Financial Account as a Reportable Account or not based on the status at the end of the reportable period.

## **10.2. Account Holders**

In order to identify the person or entity that is the account holder under the terms of the Agreement, a Financial Institution may need to consider the type of account and the capacity in which it is held.

### ***10.2.1 Trusts and Estates***

Where a Trust or Estate is listed as the holder of a Financial Account, then the Trust or Estate is to be treated as the account holder, rather than any settlor or beneficiary. This however, does not remove the requirement to identify the Controlling Persons of a Trust or Estate, where the Trust

or Estate is a Passive NFFE.

The US Temporary Regulations issued in February of 2014 confirmed that a grantor trust is treated as the account holder of any account, not the grantor of the trust. This does not remove the requirement to identify the Controlling Persons of a Trust or Estate, where the Trust or Estate is a Passive NFFE.

Where an issuer's share register becomes the subject of an acquisition (for example a takeover by Company A of Company B pursuant to a statutory merger), and shareholders of Company B have not responded to and/or accepted the offer, they become known as dissenters or dissenting shareholders. On completion of the takeover, the consideration is transferred to a trustee to be held on the dissenters' behalf until they claim the proceeds and it is paid to them. The trustee in this instance does not become the account holder as the original shareholdings (equity interests) are not Financial Accounts unless Section 10.8 applies.

### ***10.2.2 Partnerships***

Where a Financial Account is held in the name of the partnership it will be the partnership that is the account holder rather than the partners in the partnership.

### ***10.2.3 Accounts held by persons other than a Financial Institution.***

A person, other than a Financial Institution, that holds a Financial Account for the benefit of another person, as an:

- Agent;
- Custodian;
- Nominee;
- Signatory;
- Investment Adviser; or
- intermediary

Is not treated as an account holder with respect to such account for purposes of the Agreement. Where the Financial Account does not meet the conditions relating to Intermediary Accounts (Section 10.15) then the person on whose behalf the account is held is the account holder.

### ***Example 1***

Where a parent opens an account for a child, the child will be the account holder.

### ***10.2.4 Joint Accounts***

Where a Financial Account is jointly held, the balance or value in the account is to be attributed in full to all joint holders of the account. This will apply for both aggregation and reporting purposes.

If an account is jointly held by an individual and an entity, the Financial Institution will need to apply separately both the individual and entity due diligence requirements in relation to that account.

### ***10.2.5 Cash Value Insurance Contracts and Annuity Contracts***

An Insurance or Annuity Contract is held by each person entitled to access the contract's value (for example, through a loan, withdrawal, surrender, or otherwise) or with the ability to change a beneficiary under the contract.

Where no person can access the contract's value or change a beneficiary, the account holders are any person named in the contract as an owner and any person who is entitled to receive a future payment under the terms of the contract. When an obligation to pay an amount under the contract becomes fixed, each person entitled to receive a payment is an account holder.

### ***10.2.6. Joint life second death Cash Value Insurance Contracts***

Joint life second death Cash Value Insurance Contracts are sometimes taken out by spouses. Such policies insure both parties, but do not pay out on the death of the first person. Instead the policy remains in force until the other person has died or the policy is surrendered.

Where one of the policyholders whose life is assured is a Specified Person (and the other is not a Specified Person) this will be a Reportable Account which is reported annually. If the Specified Person dies during the term of the insurance it will cease to be a Reportable Account.

## **10.3. Depository Account**

A Depository Account is any commercial current account, and savings account evidenced by a certificate of deposit, investment certificate, certificate of indebtedness, or other similar instrument where cash is placed on deposit with an entity engaged in a banking or similar business.

The account does not have to be an interest bearing account. A Depository Account will include any credit balance on a credit card issued by a credit card company engaged in banking or similar business.

However, credit cards will not be considered to be Depository Accounts where the issuer of the credit card implements policies and procedures (on or by the 30 June 2014 or the date it registers as a Financial Institution). The implementation of these policies and procedures are to either to prevent a customer deposit in excess of \$50,000 or to ensure that any customer deposit in excess of \$50,000 is refunded to the customer within 60 days.

Where a Financial Institution applies the threshold for Depository Accounts this will mean that a credit card account will only be reportable where, after applying the aggregation rules (See Section 11.18):

- 1) there are no other accounts and the balance exceeds \$50,000; and
- 2) the total balance on all aggregated Depository Accounts (including the credit card balance) exceeds \$50,000. See Section 3.2.6 regarding the US Agreement and Section 4.2.3 regarding the UK Agreement for information in respect of entities that are credit card issuers.

The definition of Depository Account also includes an amount held by an Insurance Company under an agreement to pay or credit interest. However, amounts held by an Insurance Company

awaiting payment in relation to a Cash Value Insurance Contract where the term has ended will not constitute a Depository Account.

#### **10.4. Custodial Account**

A Custodial Account is an account (other than an Insurance Contract or Annuity Contract) for the benefit of another person that holds any financial instrument or contract held for investment.

Financial instruments/contracts which can be held in such accounts can include, but are not limited to:

- A share or stock in a corporation;
- A note, bond, debenture, or other evidence of indebtedness;
- A currency or commodity transaction;
- A credit default swap;
- A swap based upon a non-financial index;
- A notional principal contract (in general, contracts that provide for the payment of amounts by one party to another at specified intervals. These are calculated by reference to a specified index upon a notional principal amount in exchange for specified consideration or a promise to pay similar amounts)
- An Insurance Contract or Annuity Contract; and
- Any option or other derivative instrument for the benefit of another person.

A Cash Value Insurance Contract or an Annuity Contract is not considered to be a Custodial Account, but these could be assets held in a Custodial Account. Where they are assets in a Custodial Account, the Insurer will only need to provide the Custodian with the cash/surrender value of the Cash Value Insurance Contract.

A Custodial Account does not include financial instruments/contracts (for example, a share or stock in a corporation) held in a nominee sponsored by the issuer of its own shares, which are in every other respect analogous to those held on the issuer's share register.

##### ***10.4.1. Collateral***

The Custodial Accounts definition includes all accounts which are maintained for the benefit of another, or arrangements pursuant to which an obligation exists to return cash or assets to another.

Transactions which include the collection of margin or collateral on behalf of a counterparty may fall within the definition of Custodial Account. The exact terms of the contractual arrangements will be relevant in applying this interpretation. However any obligations to return equivalent collateral at conclusion of the contract, and potentially make interim payments (such as interest) to counterparties during the contract term will constitute a Custodial Account for the purposes of the Agreements.

#### **10.5. Insurance Contract**

An insurance contract is a contract, other than an Annuity Contract, under which the issuer agrees to make payments upon the occurrence of a specified contingency involving mortality, morbidity, accident, liability, or property risk.

An insurance contract is not to be considered to be a Custodial Account but it could be one of the assets held in a Custodial Account.

### **10.6. Cash Value Insurance Contract**

A Cash Value Insurance Contract is an Insurance Contract (as defined in Section 10.5) where the cash surrender or termination value or the amount the policyholder can borrow under (or with regard to) the contract is, greater than \$50,000. The termination value is calculated without deducting any surrender charges or policy loans. The \$50,000 limit only applies under the UK Agreement if the Financial Institution makes the appropriate election.

This definition excludes indemnity reinsurance contracts between two insurance companies.

The cash value does not include an amount payable under an insurance contract in the following situations:

- the amount payable on the insured event, which includes death;
- a refund on a non-life insurance policy premium due to cancellation or termination of the policy, a reduction in amount insured, or a correction of an error in relation to the premium due; or
- a policyholder on-boarding incentive or bonus.

When a policy becomes subject to a claim and an amount is payable this does not create a new account, it is still the same policy.

### **10.7. Annuity Contract**

An Annuity Contract is a contract under which the Financial Institution agrees to make payments for a period of time. This is determined in whole or in part by reference to the life expectancy of one or more individuals. The term Annuity Contract also includes a contract that is considered in accordance with the law, regulation, or practice of the jurisdiction in which the contract was issued, and under which the issuer agrees to make payments for a term of years.

An Annuity Contract is not to be considered to be a custodial account but it could be one of the assets that are held in a custodial account.

The following are not considered to be an Annuity Contract for these purposes:

- Reinsurance of Annuity Contracts between two Insurance Companies
- Pension annuities – see Section 5.
- Immediate needs annuities.
- Periodic payment orders.

## **10.8. Equity or debt interest in an Investment Entity**

Where an Investment Entity is an asset manager, investment advisor or other similar entity then the Debt and Equity Interests in that entity are generally excluded from being a Financial Account. This mirrors the treatment of Debt and Equity interests in entities that are solely Depository or Custodial Institutions. Debt and Equity Interests (other than regularly traded interests – see Sections 10.9 and 10.10) are only Financial Accounts if they are issued in entities that are Investment Entities because:

- the entity's gross income is attributable to investing, reinvesting or trading in financial assets, **and** they are managed by a Financial Institution including another Investment Entity; **or**
- the entity functions or holds its self out as a Collective Investment Vehicle, mutual fund, exchange traded fund, private equity fund, hedge fund, venture capital fund, leveraged buyout fund, or any similar investment vehicle established with an investment strategy of investing, reinvesting or trading in financial assets.

In the case of a partnership that is a Financial Institution, the term Equity Interest means either a capital or profits interest in the partnership.

In the case of a Trust that is a Financial Institution, an Equity Interest means an interest (if any) held in that Trust by the following persons:

- (i) A settlor of the trust;
- (ii) A beneficiary that is entitled to a mandatory distribution or benefit (directly or indirectly) from the trust;
- (iii) A beneficiary that receives a discretionary distribution or benefit from the trust in the calendar year; and
- (iv) Any person that exercises ultimate effective control over the trust.

## **10.9. Equity or Debt Interests regularly traded on an established securities market – UK Agreement**

Equity or Debt Interests of an Investment Entity that are regularly traded on an established securities market are not Financial Accounts for the purposes of the Agreements.

For the purposes of the UK Agreement, an equity or debt interest is “regularly traded” if it is listed and/or available for trading on an established securities market. There is no need to check annually whether any transactions have been undertaken.

There are mechanisms to prevent the risk that an entity could circumvent the appropriate IGA reporting by seeking a listing where there is no intention of the investment vehicle being widely available. In such situations the TCI Competent Authorities will treat as Financial Accounts those equity or debt interests established with a purpose of avoiding reporting in accordance with the Agreement. This will include interests that nevertheless meet the underlying criteria for regularly

traded on an established securities market.

Where there is an attempt to set up a particular interest or class of interest to avoid reporting under the Agreement, all debt and equity interests will become reportable. This also should achieve the objectives of not requiring major financial institutions to report on their interests but targets reporting at where it will be of most relevance.

In assessing whether a class of interest has been set up to avoid reporting the TCI Competent Authority will consider a number of factors, such as, for example:

- whether the Investment Entity is subject to regulation in the TCI;
- whether the investor has any right to redeem their holding at net asset value;
- the degree to which the assets held in the underlying portfolio are exposed to investment or trading risk. These rules require a company to have a published investment policy which demonstrates how they intend to manage their assets with a view to spreading investment risk), and whether the product is publically advertised through the issuance of a prospectus.

*Please note the above is not an exhaustive list and where appropriate the Turks and Caicos Islands Competent Authorities will consider each case on its particular circumstances.*

#### **10.10. Debt or Equity Interests regularly traded on an established securities market – US Agreement**

For the purposes of the US Agreement, an equity or debt interest in an Investment Entity is “regularly traded” if there is a meaningful volume of trading with respect to that interest on an ongoing basis.

An interest is not “regularly traded” if the holder of the interest (other than a Financial Institution acting as an intermediary) is registered on the books of such Financial Institution. This exclusion does not apply to interests registered on the books of the Financial Institution prior to 1 July 2014. In regards to interests registered after 1 July 2014, a Financial Institution is not required to apply this exclusion prior to 31 December 2015.

#### **10.11. Products Exempt from being Financial Accounts**

Annex II of the US Agreement and UK Agreement set out certain products that have been agreed as low risk (in terms of the likelihood of being used for tax evasion) and which are exempt from being treated as Financial Accounts. As such, Financial Institutions will have no reporting obligations under the Agreements in respect of these accounts or products.

The Agreements also provide the capacity for the respective Annexes to be updated, either to allow for other low risk products to be added or to remove products that are no longer deemed low risk.

Sections 10.12 and 10.13 detail identified TCI accounts that are exempt from being a Financial Account.

## **10.12. Retirement Accounts and Products**

Consideration should be given to the criteria set out in Annex II of the US Agreement and Annex II of the UK Agreement in relation to retirement accounts and products.

## **10.13. Certain other Tax Favored Accounts or Products – *TCI Specific***

There are currently no other Tax Favored Accounts or Products identified as being exempt. Consideration should be given to the criteria set out in Annexes II of the Agreements and should accounts or products be identified as potentially qualified, the Exchange of Information Unit should be notified and will consider including in this Section.

## **10.14. Accounts of deceased persons**

Accounts of deceased persons will not be Financial Accounts if the TCI Financial Institution that maintains them has received and is in possession of a formal notification of the account holder's death. Acceptable forms of notification are a copy of the deceased's death certificate, a copy of the coroner's interim certificate or a copy of the will. Such an account will not be reportable in the year of the account holder's death and subsequent years.

Where the Estate is established by a Grant of Probate in respect of deceased persons account(s) the Reporting TCI Financial Institution is required (as per Section 10.2.1) to identify the Controlling Persons of the Estate.

## **10.15. Intermediary/Escrow Accounts**

Accounts that meet the conditions below will not be Financial Accounts.

Accounts held by a TCI Financial Institution for a non-Financial Intermediary (such as a firm of solicitors or estate agents) and established for the purposes of either:

- a court order, judgment or other legal matter on which the non-Financial Intermediary is acting on behalf of their underlying client;
- a sale, exchange, or lease of real or personal property where it also meets the following conditions:
  - The account holds only the monies appropriate to secure an obligation of one of the parties directly related to the transaction, or a similar payment, or with a financial asset that is deposited in the account in connection with the transaction;
  - The account is established and used solely to secure the obligation of the parties to the transaction;
  - The assets of the account, including the income earned thereon, will be paid or otherwise distributed for the benefit of the parties when the transaction is completed;
  - The account is not a margin or similar account established in connection with a sale or exchange of a financial asset; and

- The account is not associated with a credit card account.

An obligation of a Financial Institution servicing a loan secured by real property to set aside a portion of a payment solely to facilitate the payment of taxes or insurance related to the real property at a later time; or

An obligation of a Financial Institution solely to facilitate the payment of taxes at a later time.

Accounts provided by a non-Financial Intermediary as an intermediary (such as non-legal Escrow type accounts) that meet the conditions above will also not be Financial Accounts.

Where the Financial Account does not meet the above conditions then please refer to Section 10.16.

### **10.16. Undesignated accounts**

Where a Financial Account held by a non-Financial Intermediary such as a solicitor does not meet any of the conditions set out in Section 10.15, but is an account holding, on a pooled basis, the funds of underlying clients of the non-Financial Intermediary where:

- the only person listed or identified on the Financial Account with the Financial Institution is the non-Financial Intermediary; **and**
- the non-Financial Intermediary is not required to disclose or pass their underlying client or clients' information to the Financial Institution for the purposes of AML/KYC or other regulatory requirements.

then the Financial Institution is only required to undertake the due diligence procedures in respect of the non-Financial Intermediary.

A designated client account is an account held with a Financial Institution, operated by a non-Financial Intermediary but where the underlying client or clients of the intermediary are listed or can be identified by the Financial Institution.

### **10.17. Segregated accounts**

Where an investment manager is appointed to provide investment management services directly by the legal owner of assets as segregated accounts, then these are not Financial Accounts of the investment manager. These will be Custodial Accounts of a Custodian, who will need to treat the investors as their account holders as there is no interposing fund.

Note that in cases where a discretionary investment manager also holds assets on behalf of clients (by acting as Custodian), reporting will be required on those accounts by virtue of the investment manager falling within the definition of a Custodial Institution.

This also applies to discretionary investment managers who arrange for custody as agent on their clients' behalf, where the custody accounts are pooled nominee accounts.

There will be situations where an investment manager does not hold custody for its customers but holds the information required for due diligence and reporting. For example where an investment manager arranges for custody as an agent on their customers' behalf or where the custody accounts are pooled nominee accounts.

The investment manager will be the reporting Financial Institution for those accounts by virtue of its status as an Investment Entity where:

- it alone has direct knowledge of its customers and their accounts; and
- it alone carries out the AML/KYC procedures on those accounts.

#### ***10.17.1 Fully disclosed clearing and settlement (Model B)***

These are arrangements which are designed to facilitate the clearing and settlement of security transactions that utilize a third party provider's existing information technology infrastructure 'IT' systems. This refers specifically to those that interface with the international securities settlement and clearing systems (clearing firms).

A tri-partite relationship between the underlying customer, the broker and the clearing firm (the 'tripartite relationship'), is created as the broker has entered into a fully disclosed clearing relationship with the clearing firm on his own behalf, and, acting as the agent of its underlying client.

For the avoidance of doubt where a broker has opened an account (or sub-accounts) with the clearing firm in the name of its underlying client, once all verification and due diligence requirements are fulfilled the Financial Accounts remain those of the broker and not the clearing firm.

Therefore, reporting and classification in respect of the underlying client required under the Agreement and the relevant legislation is the responsibility of the broker.

The clearing firm however will treat the broker as its client and consequently as the person for which it maintains a Financial Account. The firm will then have to report and classify such brokers accordingly.

The term broker in respect of fully disclosed clearing and settlement would also include any Financial Institution who acts on behalf of the underlying investor. This is in regards to executing, placing or transmitting orders and would therefore include Financial Accounts if their business is more than simply advisory.

#### **10.18. Dormant accounts**

A TCI Financial Institution may apply its existing normal operating procedures to classify an account as dormant. Where normal operating procedures are not applicable, then the Financial Institution are to classify an account as dormant for the purposes of the Agreement where:

- there has been no activity on the account in the past three years;
- the account holder has not contacted the Financial Institution regarding that

account or any other account in the past six years;

- the account is not linked to an active account belonging to the same account holder.

The Financial Institution should classify the account based upon existing documentation it already has in its possession for the account holder. Where this review determines that the dormant account is reportable, then the Financial Institution should make the appropriate report notwithstanding that there has been no contact with the account holder. Where the Financial Institution has closed the account and transferred the customer's account balances to a pooled 'unclaimed balances account' maintained by the bank there will be no customer account to report.

An account that has a nil balance is not necessarily dormant if the above conditions do not apply.

An account will no longer be dormant where:

- under normal operating procedures the account is not considered dormant;
- the account holder contacts the Financial Institution in relation to that account or any other account held by the account holder with that Financial Institution including a former account holder whose account balances have been transferred to an unclaimed balances account;
- the account holder initiates a transaction with respect to the dormant account or any other account held by the account holder with that Financial Institution.

The Financial Institution would then have to ensure it establishes the account holders' status as if the account were a New Account.

#### ***10.18.1 Dormant, liquidating and struck off Investment Entities***

When an Entity that has been an Investment Entity is closed (i.e. there are no remaining participating investors, or equivalent, in the Investment Entity, and the Investment Entity is not open to further investors) or a Liquidator has been formally appointed but there remain residual debtors and recovery actions are being pursued. The Investment Entity will not be an Investment Entity for the purposes of the Agreements.

Where any Investment Entity was closed, or in liquidation before 30 June 2014, it will have no registration or reporting obligations in relation to that business. However, when the Entity is no longer considered an Investment Entity after 1 July 2014, a final return should be made in accordance with the reporting requirements if applicable by or before the next reporting deadline.

Companies may be struck off the TCI Register of Companies for a number of reasons. If the company which is struck off has no assets and has ceased to do business then the same analysis as above applies. If, however, a company is struck off but continues to carry on business or hold assets then the obligations under the TCI Regulations continue to apply and the company (and potentially its directors and officers) remain liable for ensuring compliance.

## **10.19. Rollovers**

Where some or all of the proceeds of a maturing fixed term product are rolled over, automatically or with the account holder's interaction, into a new fixed term product this shall not be deemed to be the creation of a New Account.

## **10.20. Syndicated Loans**

In relation to syndicated loan activities, an Entity acting as a lead manager/fronting bank/agent (“**Agent**”) of a syndicated Invoice Finance facility would not in itself be sufficient to bring that entity into the Investment Entity or Custodian Institution definition as a Financial Institution. Note there must be no other business activities that would bring the entity into the classification of Financial Institution.

Where a borrower requires a large or sophisticated facility, or multiple types of facility, this is commonly provided by a group of lenders, known as a syndicate, under a syndicated loan agreement.

To facilitate the process of administering the loan on a daily basis, one bank from the syndicate is typically appointed as Agent. The Agent's role is to act as the agent for the lenders, (i.e. not of the borrower) and to coordinate and administer all aspects of the loan once the loan agreement has been executed. The Agent will also act as a point of contact between the borrower and the lenders in the syndicate and monitor the compliance of the borrower with certain terms of the facility.

In essence, the Agent performs exclusively operational functions. For example, the borrower makes all payments of interest and repayments of principal and any other payments required under the loan agreement to the Agent. The Agent then passes these monies back to the lenders to which they are due. Similarly, the lenders advance funds to the borrower through the Agent. The terms of a syndicated loan agreement usually entitle the Agent to undertake the roles described above in return for a fee.

In these circumstances the participation of a lender in a syndicated loan, where a TCI Financial Institution Agent acts for and on behalf of a syndicate of lenders which includes that lender, does not lead to the creation of a "Custodial Account" held by the TCI Agent.

The lenders hold their interests in a loan directly rather than through the Agent and, therefore, the participation of a lender does not amount to a "Custodial Account" held by a TCI Agent.

## 10.21. Electronic money issuers (E-Money)

The following table details some types of E-Money formats.

Product	‘Financial Account Under FATCA’	Comments
E-Voucher	No	None
Pay Card	Yes	Where cash is retained in credit, this causes the arrangement to fall within scope of financial account. This is a depository account, and could only benefit from an exemption if the manufacturing FFI meets the qualified credit card issuers exemption.
Prepaid Credit Card	Yes	Where cash is retained in credit, this causes the arrangement to fall within scope of financial account. This is a depository account, and could only benefit from an exemption if the manufacturing FFI meets the qualified credit card issuers exemption.
Merchant Services Account	Possibly	If cash is retained within a merchant’s account then this is not a depository account, but is a custodial account. If merchant services payments simply flow through systems but were not retained in an account, such payments would not be financial accounts. If in scope, the only comparable exemption in the US legislation is ‘escrow account’ exemption, but these are not “escrow” accounts.

In addition to the above, any account that would otherwise fall within the definition of a financial account (depository, investment, custodial, insurance) will not fail to qualify as a financial account just because it is maintained in an e-Money format. For example, an online depository account (sometimes known as an ‘e-wallet’) is treated the same way as a traditional depository account.

## **11. REGISTRATION**

### **11.1. General requirements**

Registration is only required under the US Agreement and references to registration refers to registration on the IRS FATCA portal under the US Regulations.

### **11.2. Who needs to register**

All Reporting TCI Financial Institutions and any entity that is a Registered Deemed Compliant Financial Institution as defined under the US Agreement (see Section 3), must register and obtain a Global Intermediary Identification Number (**GIIN**) from the IRS.

A TCI Financial Institution can be a Reporting TCI Financial Institution and so be required to register even if it does not identify any Specified Persons as holders of Financial Accounts.

A Financial Institution with a Local Client Base that has a reporting obligation, due to the fact that it has some Reportable Accounts, will require a GIIN and so will need to register.

Entities that are Reporting Financial Institutions and also acting as a sponsor for other entities will need to register separately for each of these roles.

### **11.3. Which Financial Institutions do not need to register**

The following entities do not need to register:

- Any Non-Reporting Financial Institution as described in Annex II of the US Agreement;
- Any Deemed Compliant Financial Institution, except a Registered Deemed Compliant Entity (see Section 3.2);
- Any entity that qualifies as an Exempt Beneficial Owner (see Section 5);
- Any Active or Passive NFFE (see Section 9).

### **11.4. Timetable for registration**

The registration service for Financial Institutions is open and GIINs will be assigned to registered entities once the entity has submitted its application. The IRS has published guidance regarding the Form 8957 online registration process (IRS Publication 5118) which serves as a user guide for the FATCA registration process.

Financial Institutions in a Model 1 jurisdiction are not required to provide a GIIN to withholding agents in order to establish their FATCA status prior to 1 January 2015. Before that date Model 1 Financial Institutions can confirm their status by either:

- Providing a Withholding Certificate;
- Providing a pre FATCA W-8 with an oral or written confirmation that the Entity is a Model 1 Financial Institution; or informing the withholding agent that they are a

Model 1 Financial Institution (which is supported by a list of IGA jurisdictions published by the IRS at the following website:

<http://www.treasury.gov/resource-center/taxpolicy/treaties/Pages/FATCA-Archive.aspx>)

- Providing a FATCA W8-BEN-E certifying the Entity's FATCA classification and other required information.

A reporting Financial Institution under a Model 1 IGA was able to register and obtain a GIIN prior to 1 July 2014 and may have generally found it convenient to do so. Nonetheless, such a Financial Institution are not required to provide a GIIN to withholding agents prior to 1 January 2015 and in essence has time beyond 1 July 2014 to register and obtain a GIIN.

In order to be on the IRS FFI list available online by 1 January 2015, a reporting FI under a Model 1 IGA will need to register and obtain a GIIN by December 22 2014.

Any TCI Reporting Financial Institution submitting its registration information may subsequently choose to revoke its status by revisiting its account and deleting its registration (if its GIIN has not yet been issued) or cancelling its registration (if its GIIN has already been issued).

## **12. DUE DILIGENCE REQUIREMENTS**

### **12.1. General**

Financial Institutions are responsible for the identification and reporting of Financial Accounts held by Specified Persons or by Passive NFFEs with one or more Controlling Persons who are Specified Persons or by Non-Participating Financial Institutions. This Section sets out the procedures Financial Institutions must carry out to identify those account holders.

It is important that Financial Institutions follow the procedures set out in the Agreements, and in these Guidance Notes, rather than those set out in the US Regulations.

A Financial Institution can rely on a third party service provider to fulfil its obligations under the TCI Legislation. The obligations remain the responsibility of the Financial Institution and so any failures will be direct reflection of the Financial Institution.

A Financial Institution will need to follow one or more of these three processes for identification of account holders. The identification will be contingent on whether the account holder is an individual or an entity and whether the account is pre-existing or not:

a) Indicia search-

Searching for relevant indicia by reference to documentation or information held or collected in accordance with opening or maintaining of an account. This may include information held for the purpose of compliance with TCI AML/CFT Regulations. Refer to the relevant Section for details of relevant indicia for each type of account;

b) Self-certification-

Requesting self-certification from an account holder or a Controlling Person of a Passive NFFE where applicable;

c) Publicly available information (for entities only)-

Searching publicly available information to determine the FATCA status of an entity, for example whether it is an Active NFFE or a Financial Institution that has registered and obtained a GIIN.

### **12.2. Acceptable documentary evidence**

A Financial Institution, or the third party service provider acting on behalf of the Financial Institution, can accept documentary evidence to support an account holder's status provided the documentation meets one of the following criteria:

- A certificate of residence issued by an authorized government body of the country in which the account holder claims to be resident, for example a certificate of tax residence issued by the tax authority.
- For individuals, any valid identification issued by an authorized government body that includes the name of the individual and is typically used for identification purposes, for example a passport or driving license;

- For entities, any official document issued by an authorized government body that includes the name of the entity and either the principal office address in the country in which the entity claims to be resident or in the country in which the entity was incorporated or formed;
- Any financial statement, third party credit report or US Securities and Exchange Commission report;

Any of the documents will suffice for identification purposes:

- For a natural person:
  - a) Passport, or
  - b) National identity card, or
  - c) Armed forces identity card, or
  - d) Driver's license.
- For entities:
  - (i) For partnerships; a copy of the partnership agreement and any subsidiary or subsequent agreement evidencing the appointment and powers of the current partners, or certified copies of extracts therefrom covering the appointment and powers of the partners.
  - (ii) For corporations: a copy of the certificate of incorporation or the memorandum and articles of association (or foreign equivalent).
  - (iii) For trusts: a certified copy of an extract of the trust deed and a certified copy of an extract of any subsidiary or subsequent deed evidencing the appointment and powers of the current trustees, or certified copies therefrom covering the appointment and powers of the trustees.

### **12.3. IRS withholding certificates (US Agreement)**

Withholding certificates issued by the IRS such as the W-8 and W-9 series are acceptable in establishing an account holder's status. A pre-FATCA W-8 form may be accepted in lieu of obtaining an updated W-8 until such time as the W-8 needs to be renewed.

### **12.4. Validity of documentation**

All documentary evidence, including self-certification used to establish an account holder's status will remain valid indefinitely until a change in circumstances or knowledge results in a change in of the account holder's status.

### **12.5. Retention of Documentary Evidence**

A Financial Institution, sponsoring entity or third party service provider undertaking due diligence on behalf of a Financial Institution, must retain records of the documentary evidence, a notation

or record of documents reviewed. This will be used to support an account holder's status for six years following the end of the year in which the status was established. Financial Institutions may want to review their document retention policies to ensure they are compliant.

The documentary evidence can be retained as originals, photocopies or in an electronic format.

A Financial Institution that is not required to retain copies of documentation reviewed under AML due diligence procedures, will be treated as having retained a record of such documentation if it retains a record noting:

- a) The date the documentation was reviewed;
- b) Each type of documentation reviewed;
- c) The document's identification number where present, such as a passport number; and
- d) Whether any relevant indicia were identified.

For High Value Pre-existing Accounts where a Relationship Manager enquiry is required, records of electronic searches, requests made and responses to Relationship Manager enquiries; should be retained for six years following the end of the year in which the due diligence was undertaken.

Guidance on the identification and role of a Relationship Manager are in Section 12.13.2.

## **12.6. Document sharing**

Documentation is required to support the status of each Financial Account held. However in the following circumstances documentation obtained by a Financial Institution can be used in relation to more than one Financial Account.

### ***12.6.1. Single branch system***

Where an existing customer opens a new Financial Account with the same Financial Institution and both accounts are treated as a single account or obligation it may be possible to rely on existing documentation. See Section 18.4.

### ***12.6.2. Universal account systems***

A Financial Institution may rely on documentation furnished by a customer for an account held at another branch location of the same Financial Institution or at a branch location of a related entity of the Financial Institution if:

- The Financial Institution treats all accounts that share documentation as a single account or obligation; **and**
- The Financial Institution and the other branch location or related entity are part of a universal account system that uses a customer identifier that can be used to retrieve systematically all other accounts of the customer.

In this scenario a Financial Institution must be able to produce to the Exchange of Information

Unit, upon request, the necessary records and documentation relevant to the status claimed. If the Financial Institution is not required to retain copies of the documentary evidence for AML purposes then they must produce a notation of the documentary evidence reviewed.

### **12.6.3. Shared account systems**

A Financial Institution may rely on documentation provided by a customer for an account held at another branch location, or at a branch location of a member of the expanded affiliated group, if:

- The Financial Institution treats all accounts that share documentation as consolidated accounts, **and**
- The Financial Institution and the other branch location or expanded affiliated group member share an information system, electronic or otherwise, that is described below.

A shared account system must allow the Financial Institution to easily access data about the nature of the documentation, the information contained in the documentation (including a copy of the documentation itself), and the validity status of the documentation.

If the Financial Institution becomes aware of any fact that may affect the reliability of the documentation, the information system must allow the Financial Institution to easily record this data in the system.

Additionally the Financial Institution must be able to show how and when it transmitted data regarding such facts into the information system and demonstrate that any data it has transmitted to the information system has been processed and the validity of the documentation subjected to appropriate due diligence.

A Financial Institution that opts to rely on the status designated for the account holder in the shared account system without obtaining and reviewing copies of the documentation supporting the status, **must** be able to produce upon request by the Exchange of Information Unit all documentation. If the Financial Institution is not required to retain copies of the documentary evidence for AML purposes relevant to the status claimed.

### **12.7. Self-Certification**

As part of the process of identifying the status of account holders and entities and identifying the Controlling Persons of entities, Financial Institutions can rely on self-certifications.

Self-certification may be used by a Financial Institution in relation to individual account holders as follows:

- a) To establish where a holder of a New Individual Account is resident for tax purposes;
- c) To obtain the name, permanent residential address and country of birth of the individual;
- c) To obtain a TIN or similar identification number such as date of birth or National Insurance Number from a New Individual account holder who is a resident of another country for tax purposes; **or**

- d) In order to show that an individual is not in fact a resident for tax purposes in a country, even if indicia are found indicating such residence in respect of a Lower Value or High Value Pre-existing Individual Account that they hold.

Self-certification is required in relation to entities if the Financial Institution cannot determine the status from information in its possession or that is publicly available. Self-certification is also required:

- a) To establish the status of an entity where a Financial Institution cannot reasonably determine that the account holder is not a Specified Person.
- b) To capture the entity name and country of incorporation or organization;
- c) To establish the status of a Financial Institution that is neither a TCI Financial Institution nor a Partner Jurisdiction Financial Institution, unless a Financial Institution's status can be established from an IRS published list.
- d) To establish whether an entity is a Passive NFFE.
- e) To establish the status of a Controlling Person of a Passive NFFE and whether or not they are a resident in a relevant country for tax purposes.

Self-certification can be in any format (including electronic) and can include the use of withholding certificates or other similar agreed forms. The form can include other information required for the other purposes such as AML due diligence.

A self-certification provided by an account holder cannot be relied upon if a Financial Institution has reason to know that it is incorrect, unreliable or there is a change in circumstance which changes the account holder's status.

## **12.8. Confirming the Reasonableness of Self-certification**

A Financial Institution receiving a self-certification must consider other information it has obtained concerning the account holder to check whether the self-certification is reasonable, particularly where there is an apparent conflict.

### ***Example 1***

Where an account holder provides one of the US indicia, such as a US address, to the Financial Institution but then provides a self-certification confirming they are not US resident for tax purposes, the Financial Institution would need to make further enquiries to establish whether or not the self-certification is reasonable.

Where a Financial Institution relies on AML procedures performed by other parties and no self-certification is provided directly to the Financial Institution, the Financial Institution may request that the third party obtain a self-certification for the purposes of the legislation. The third party should then confirm the reasonableness of the self-certification based on information that it has obtained.

For the avoidance of doubt, where self-certification is received directly by the Financial Institution, there is no requirement to ensure that any third party that carried out AML/KYC

procedures has confirmed its reasonableness. The Financial Institution is required to confirm the self-certification provided to it based on any other information it alone has obtained or holds. So where a Financial Advisor (FA) has performed AML checks, the Financial Institution is not deemed to have seen any documentation the financial adviser has seen, unless the documentation is also provided to the Financial Institution.

### ***Example 2***

A Financial Institution has received a new account opening instruction from an individual (that may have been by telephone) which includes a self-certification regarding the account holder's residence status. The Financial Institution has performed AML procedures by checking the identity of the individual (name, address and date of birth) against the records of, for example, a credit reference agency. The check confirmed the identity of the individual.

The Financial Institution can satisfy its obligations under the Agreements by confirming the reasonableness of the self-certification against other information in the account opening instruction and any other information it has on the individual. Where no other information exists, the reasonableness is confirmed based on information in the account opening instruction alone.

If the account opening instruction is received by telephone, the account holder may receive paperwork that includes their response to the self-certification question and other questions asked. The account holder should be requested to contact the Financial Institution in the event that any of the information is not correct within a specified period. Provided the Financial Institution does not receive any other information from the account holder within the specified time, and provided the self-certification is otherwise reasonable, then the requirements are met.

### ***Example 3***

A Financial Institution has received new account opening documentation from an individual who has been advised by a financial adviser. The Financial Institution is unaware of any previous contact with the individual and has not delegated the financial adviser to carry out the FATCA due diligence procedures on its behalf. However, the Financial Institution can rely on the introducing financial adviser to perform the necessary AML checks to identify the individual and is provided with a confirmation by the financial adviser that they have done so.

The Financial Institution must ensure it identifies the account holder's status for FATCA purposes. The documents received regarding the account opening contains information about the individual (name, address, date of birth, contact details including telephone number and email address), and a self-certification that the individual is not resident, for example, in the US for tax purposes, and is not a citizen of the US.

The Financial Institution can satisfy its requirements under the Agreements by confirming the reasonableness of the self-certification against other information contained in the account opening instruction and any other information it has on the individual. Where no other information exists the reasonableness is confirmed based on the information in the account opening instruction alone. The Financial Institution is not deemed to have seen any documentation the financial adviser has seen.

### ***Example 4***

As per example 2, but the Financial Institution has delegated the financial adviser to perform the

FATCA due diligence procedures on its behalf.

The introducing financial adviser carries out the AML checks and obtains a self-certification from the individual confirming their FATCA status. The Financial Institution can satisfy its requirements under the Agreements by obtaining confirmation from the financial adviser that they have confirmed the reasonableness of the self-certification.

### ***Example 5***

As per example 1, but the individual has been introduced by a Financial Adviser, although the Financial Institution has not placed reliance on the Financial Advisor AML procedures and instead has performed its own AML procedures.

The Financial Institution can satisfy its requirements under the Agreements by confirming the reasonableness of the self-certification against other information contained in the account opening instruction and any other information it has on the individual. Where no other information exists the reasonableness is confirmed based on the information in the account opening instruction alone.

## **12.9. Self-certification for New Individual Accounts**

The requirements for self-certification for New Individual Accounts are focused on establishing the tax residency or residencies of the account holder, and for the specific purposes of the Agreements.

### ***12.9.1. Obtaining a self-certification***

Unless the Financial Account is of a type that does not need to be reviewed, identified or reported, a Financial Institution must obtain a self-certification to enable it to determine where the account holder is tax resident and, in the case of the US Agreement, whether or not they are a US citizen. The self-certification process and documentation should allow for cases where the account holder is a tax resident of more than one country.

Citizenship is important when considering the US Agreement as a US citizen is considered a US resident for tax purposes even if they are also tax resident elsewhere.

For the UK Agreement, residence in the UK is important and citizenship is not relevant. For the purposes of the US Agreement, where a self-certification determines that a New Individual account holder is a US citizen or resident for tax purposes, there is also a requirement to obtain a US Taxpayer Identification Number (TIN) from the account holder.

For the purposes of the UK Agreement, where a self-certification determines that a New Individual account holder is a UK resident for tax purposes, there is also a requirement to obtain the date of birth and National Insurance Number from the account holder.

### ***12.9.2. Wording of self-certification***

A Financial Institution can choose the form of wording it uses to determine the tax residence of a New Individual account holder. However the wording must be sufficient for an account holder to confirm the country or countries where they are tax resident and, in respect of the US

Agreement, if they are a US citizen.

### ***12.9.3. Format of self-certification***

Financial Institutions may permit individuals to open accounts in various ways. For example individuals can make investments or purchase financial products by telephone, online or on paper application forms. They may even invest without using any of the Financial Institution's set application processes and instead send a payment with a covering letter, which is then followed up with required documentation. The method of self-certification does not necessarily have to follow the account application method.

Self-certifications can be obtained in any of these account opening procedures. The following examples are intended to illustrate how these may operate, but are not exhaustive.

#### ***Example 1 - Telephone Applications***

An individual makes a telephone call to a Financial Institution, asking to open an account in line with the Financial Institution's normal account opening procedures.

The Financial Institution asks the account holder to state the countries in which they are tax resident and whether they are a US citizen. The individual provides this information on the phone and the Financial Institution records the confirmation on its system. The paperwork sent to the investor to confirm the account opening should include their response to these self-certification questions and require them to contact the Financial Institution in the event that it is not correct.

#### ***Example 2 - Online Applications***

An individual accesses the website of a Financial Institution to open an account in line with the Financial Institution's normal account opening procedures. On the account opening web page, along with information about the individual such as name and address, the individual is asked to select the appropriate country or countries in which they are tax resident and whether they are a US citizen.

### **12.10. Self-certification for Pre-existing Individual Accounts**

If indicia are found suggesting that the account holder is potentially a US citizen or resident for tax purposes in a country with which the TCI has an Agreement, then the Financial Institution must treat the account as a Reportable Account under the relevant Agreement.

However, if the Financial Institution obtains a self-certification from the account holder confirming that the indicia do not properly reflect their actual status (for example the indicia suggests that they are a US citizen but the self-certification states that they are not) and obtains or has previously reviewed and recorded details of any other documents required under the due diligence procedures applicable to Pre-Existing Individual Accounts, then the account would not be treated as reportable.

### **12.11. Self-certification for New Entity Accounts**

Unless a Financial Institution can identify or rely on information it holds or that is publically available, it should obtain a self-certification from the Entity account holders who are identified as one of the following:

- a) A Specified Person;
- b) A Financial Institution that is neither a TCI Financial Institution nor a Partner Jurisdiction Financial Institution, a Participating Financial Institution, a Deemed Compliant Financial Institution or an Exempt Beneficial Owner (as these will not be Reportable Accounts);
- c) A Passive NFFE.

For entities that are Passive NFFEs, the Financial Institution must identify the Controlling Persons and obtain a self-certification from the account holder or any Controlling Persons to determine whether they are a US citizen, in respect of the US Agreement, or where they are resident for tax purposes.

This determination can be achieved in the same way as described for New Individual Accounts in Section 12.10 above.

### **12.12. Self-certification for Pre-existing Entity Accounts**

Self-certification is required for Pre-existing Entity Accounts in the following situations.

- a) An entity account holder is identified as a Specified Person. The Financial Institution will be required to treat the account as reportable unless it obtains a self-certification showing that the account holder is not a Specified Person;
- b) The entity account holder is a Financial Institution but not a TCI Financial Institution or Financial Institution or Partner Jurisdiction Financial Institution or a Participating Financial Institution whose GIIN can be verified on the published IRS FFI list. The Financial Institution will be required to treat the account as reportable (and as a Non-Participating Financial Institution, for the purposes of the US Agreement) unless it obtains a self-certification that the entity is a Certified Deemed Compliant Financial Institution, an Exempt Beneficial Owner or an excepted FFI, as defined in the relevant US Regulations;
- c) The entity account holder is a Passive NFFE (an entity account holder will be a Passive NFFE if it is not an Active NFFE – see Section 9). The Financial Institution must obtain a self-certification from the account holder to establish its status, unless it has information in its possession or that is publicly available, based on which it can reasonably determine that the entity is an Active NFFE.

For the purposes of determining whether a Controlling Person of a Passive NFFE is a Specified Person a TCI Financial Institution may rely upon:

- a) information collected and maintained pursuant to AML/KYC procedures if the account balance of value does not exceed \$1,000,000; or
- b) If the account balance held by one or more Passive NFFEs exceeds \$1,000,000, a self-certification from the account holder or Controlling Person can be accepted as evidence of status of the Controlling Person.

## **12.13. Aggregation**

To identify whether Financial Accounts are reportable, and the extent to which enhanced review procedures are required in respect of High Value Accounts, a Financial Institution will need to consider aggregation of accounts of both individuals and entities in certain circumstances.

### ***12.13.1. When do the aggregation rules apply?***

For purposes of determining the aggregate balance or value of Financial Accounts, all accounts belonging to an individual or entity will need to be aggregated. This must be done where the Financial Institution has elected under the TCI legislation not to apply the thresholds set out in Annex 1 of the Agreements.

A Financial Institution is required to aggregate all Financial Accounts, belonging to an individual or entity, maintained by it or by a Related Entity. This will only have to be done in instances where the Financial Institution's current computerized systems links the Financial Accounts by reference to a data element, for example where a customer or taxpayer identification number allows account balances or values to be aggregated. Each holder of a jointly held Financial Account shall be attributed the entire balance or value for the purposes of applying the aggregation requirements.

### ***12.13.2. Relationship Manager***

For the purposes of determining if a Financial Account should be treated as a High Value Account, an inquiry should be made to the Financial Account Holder's relationship manager, where one has been assigned. The purpose of this is to determine if the relationship manager knows or has reason to know, of other Financial Accounts that are directly or indirectly owned, controlled, or established (other than in a fiduciary capacity) by the same person. In such cases and for the purposes of determining a High Value Account all such accounts should be aggregated. (See section [11.18.1])

A Financial Institution may appoint a relationship manager for a customer's accounts. The due diligence requirements vary where there is a relationship manager depending on the value of accounts held by the customer.

#### ***Example 1 – Lower Value Account***

An individual holds a number of accounts with Bank A and has been assigned a relationship manager. Bank A can aggregate the accounts by virtue of a taxpayer identification number found during the due diligence process. The aggregated balance of accounts exceeds \$50,000 and is less than \$1 million.

Bank A must apply due diligence procedures relevant to Lower Value Accounts (see 5.4). There is no need for Bank A to carry out the relationship manager enquiry as the \$1 million High Value Account threshold has not been exceeded.

#### ***Example 2 – High Value Accounts***

The facts are as in Example 1 above but the aggregated balance exceeds \$1 million. As the

aggregate balance of all Financial Accounts linked by a common data element and held by the individual exceeds \$1,000,000 the Financial Institution must also make enquiry of any relationship manager(s) assigned to that individual. This must be done to establish whether the relationship manager(s) knows of any additional accounts that are directly or indirectly owned, controlled or established (other than in a fiduciary capacity) by the same person.(see Section 12.11 - Relationship Managers).

### ***12.13.3. Exempt products***

If a product is exempt from being treated as a Financial Account, it does not need to be included for the purposes of aggregation. If however the exclusion of exempt products creates an additional burden, such products can be aggregated.

### ***12.13.4. Related Entities***

Where a computer system links accounts across Related Entities, irrespective of where they are located, the Financial Institution will need to aggregate in considering whether any of the reporting thresholds apply. However, once it has considered the thresholds, the Financial Institution will only be responsible for reporting on the accounts it holds. The following example sets out how this could work in practice.

#### ***Example 1***

Bank A is a TCI Financial Institution and has a related entity Bank C which is also a TCI Financial Institution. Bank A can link the Depository Account of Specified Person X to another Depository Account in the name of Specified Person X with Bank C, by virtue of the taxpayer identification number.

The aggregation exercise shows that Specified US Person X is above the Depository Account threshold for reporting.

Bank A and Bank C must each report individually on the accounts they hold for Specified Person X.

If Bank C is located in another jurisdiction it would have to report on the account it holds if it is a Reporting Financial Institution under the FATCA arrangements of that jurisdiction.

#### ***Example 2***

Bank A is a TCI Financial Institution and has a related entity Bank B which is also a TCI Financial Institution. Bank A can link the Depository Account of US Person X to a Custodial Account in the name of the same US Person X with Bank B, by virtue of the taxpayer identification number found during the due diligence process. The accounts have balances as follows:

Depository Account with Bank A - \$30,000

Custodial Account with Bank B - \$40,000

As the aggregated balance or value is \$70,000 the accounts are potentially reportable. However, the Depository Account balance is below the \$50,000 threshold for Depository Accounts and is

therefore not reportable.

The Custodial Account in this example is reportable because the aggregated total exceeds \$50,000 and there is no Custodial Account exemption that can apply.

#### ***12.13.5. Aggregation of Pre-Existing Individual Accounts - Examples***

The following examples provide illustrative outcomes that could occur from the aggregation process.

##### ***Example 1 – Application of the \$50,000 threshold***

Bank A applies the relevant thresholds in Annex 1. It can link the following accounts of Specified Person X by a taxpayer identification number.

A Depository Account with a balance of \$25,000

A Custodial Account with a balance of \$20,000

The aggregated total is below \$50,000; therefore regardless of the types of account neither account will be reportable.

##### ***Example 2 – Application of the \$50,000 threshold***

In this scenario the account balances of Specified Person X are:

A Depository Account with a balance of \$45,000

A Custodial Account with a balance of \$7,000.

As the aggregated balance or value is \$52,000 then the accounts are potentially reportable.

However, the Depository Account balance is below the \$50,000 threshold for Depository Accounts and is therefore not reportable by virtue of Annex 1, II, A, 4. If both accounts were Depository Accounts, both would need to be reported as the aggregated amount is above \$50,000.

The Custodial Account in this example is reportable because the aggregated total exceeds \$50,000 and there is no Custodial Account exemption that can apply.

##### ***Example 3 – Application of the \$250,000 Cash Value Insurance Contract threshold***

Company B is a UK Financial Institution and has elected to apply the relevant thresholds in Annex 1. It can link the following accounts of Specified Person Y by a client number:

A Cash Value Insurance Contract with a value of \$230,000

A Custodial Account with a balance of \$30,000

The aggregated balance or value indicates the accounts are potentially reportable (aggregated value above \$50,000). However, as the Cash Value Insurance Contract is below the threshold of \$250,000 that applies to that type of account (Annex 1, I, A, 4), it is not reportable.

There is no Custodial Account exemption; therefore the Custodial Account is reportable.

***Example 4 – Application of the \$1 million threshold for High Value Accounts***

Bank A can link the accounts of US Person Z by a taxpayer identification number found during the due diligence process:

A Depository Account with a balance of \$40,000

A Custodial Account with a balance of \$980,000

As the aggregated total is in excess of \$1 million US Person Z is identified as a holder of a High Value Account. However, the Depository Account balance is below the \$50,000 threshold for Depository Accounts and is therefore not reportable. The Custodial Account in this example is reportable as a High Value Account.

***Example 5 – Aggregation involving joint accounts***

Two Specified Persons have three accounts between them, one deposit account each and a jointly held deposit account with the following balances:

Specified Person A \$35,000;

Specified Person B \$25,000;

Joint Account \$30,000

A data element in the Financial Institution's computer system allows the joint account to be associated with both A and B. The system shows the individual balances of the accounts; however, it does not show a combined balance. The fact that there is not a combined balance does not prevent the aggregation rules applying.

The balance on the joint account is attributable in full to each of the account holders. In this example the aggregate balance for A would be \$65,000 and for B \$55,000. As the amounts after aggregation are in excess of the \$50,000 threshold, both account holders will be reportable. Although the Depository Accounts themselves are each below \$50,000, the exemption in Annex 1, II, A, 4 does not apply as the aggregated balance of Depository Accounts has to be taken into account.

If A was not a Specified Person then only B would be reportable following an aggregation exercise.

### ***Example 6 – Aggregation of negative balances***

Two Specified Persons have three accounts between them, one account each and a jointly held account, all with the same Financial Institution with the following balances:

Specified Person A \$53,000;

Specified Person B \$49,000;

Joint Account (\$ 8,000) – treated as nil

The accounts can be linked and therefore must be aggregated, but for the purposes of aggregation the negative balances should be treated as nil.

Therefore the only reportable account after applying the thresholds would be that for A.

### ***12.13.6. Reporting***

Once aggregation has taken place and it is determined that the accounts are reportable, the accounts should be reported individually. A Financial Institution should not consolidate the accounts for reporting purposes.

### ***Example 7 – Separate account reporting***

Specified Person Y holds three Depository Accounts with bank Z. The balances are as follows:

Account 0001 \$ 3,000

Account 0002 \$32,000

Account 0003 \$25,000

The aggregated balances total \$60,000 and all the accounts are reportable. Bank Z should report on the three accounts individually and not consolidate the information into a single entry for reporting purposes.

### ***12.13.7. Aggregation of Pre-existing Entity Accounts***

#### ***Example 8***

Specified Person A has an individual Depository Account with Bank X. Specified Person A also controls 100 per cent of entity Y and 50% of entity Z both of which also have Depository Accounts with Bank X. The balances are as follows:

Individual Depository Account \$ 35,000

Entity Y Depository Account \$130,000

Entity Z Depository Account \$90,000

Bank X applies the relevant thresholds in Annex I and all of these accounts can be linked in

Bank X's system.

The individual Depository Account is not reportable as it is below the \$50,000 threshold. There is no need to aggregate Depository Accounts held by entities controlled by an individual with those held directly by that individual to determine whether the \$50,000 exemption applies under Annex 1, II, A, 4.

Entity Y's and Entity Z's Depository Accounts are also non reportable as the aggregated balances are below the \$250,000 threshold that applies to Pre-existing Entity Accounts. In calculating the aggregated amount, 100% of each entity's Depository Account is taken into account and so the aggregated amount in this case is \$220,000 which is below the threshold.

### ***Example 9***

Specified Person A has an individual Depository Account with Bank X. Specified Person A also controls 100 per cent of entity Y and 20% of entity Z both of which also have Depository Accounts with Bank X. The balances are as follows:

Individual Depository Account \$ 35,000

Entity Y Depository Account \$330,000

Entity Z Depository Account \$90,000

Bank X applies the relevant thresholds in Annex I and all of these accounts can be linked in Bank X's system.

The individual Depository Account is not reportable as it is below the \$50,000 threshold. There is no need to aggregate Depository Accounts which are held by entities and controlled by an individual. The accounts that are directly held by that individual will be used to determine whether the \$50,000 exemption applies under Annex 1, II, A, 4.

Entity Y's Depository Accounts are reportable as it exceeds the \$250,000 threshold that applies to Pre-existing Entity Accounts. Entity Z's Depository Account are not reportable as Specified Person A is not a Controlling Person as he owns less than 25% of Entity Z (assuming Entity Z is a low/medium risk entity).

### ***Example 10***

Specified Person A has an individual Depository Account with Bank X. Specified Person A also controls 100 per cent of entity Y and 65% of entity Z both of which also have Depository Accounts with Bank X. The balances are as follows:

Individual Depository Account \$ 35,000

Entity Y Depository Account \$130,000

Entity Z Depository Account \$170,000

Bank X applies the relevant thresholds in Annex 1 and all of these accounts can be linked in Bank X's system.

The individual Depository Account is not reportable as it is below the \$50,000 threshold. There is no need to aggregate Depository Accounts held by entities controlled by an individual with those held directly by that individual to determine whether the \$50,000 exemption applies under Annex 1, II, A, 4.

Entity Y's and Entity Z's Depository Accounts are both reportable as the aggregated balances are above the \$250,000 threshold that applies to Pre-existing Entity Accounts. In calculating the aggregated amount 100% of each entity's Depository Account is taken into account and so the aggregated amount in this case is \$300,000 which is above the threshold. It is not correct to take 65% of Entity Z's Depository Account which would have given an aggregated balance of \$240,500, below the threshold.

#### **12.14. Aggregation of Sponsored funds**

The sponsor of a range of funds acts on behalf of the funds and stands in their place in relation to meeting the FATCA obligations of the funds. It is however the ultimate responsibility for these obligations remain that of the Sponsored Financial Institution.

Aggregation is required across the range of funds that have the same sponsor, where the sponsor or its service provider uses the same computerized systems to link the accounts.

In practice a sponsor (typically the fund manager) will use a service provider (the transfer agent) to manage the client relationships of the account holders (the investors in the funds). Where different service providers are used by the same sponsor, the systems might not link account information across service providers and aggregation would only be required at the level of the service provider (transfer agent).

For example, where a sponsor manages all the client relationships through a single transfer agent, aggregation should happen at the level of the sponsor (to the extent that the system links accounts). Where a sponsor has two fund ranges each using a different transfer agent, as this is where the client relationship is held. The sponsor would aggregate at the level of the transfer agent (to the extent that the system links accounts).

#### **12.15. Currency Conversion**

Where accounts are denominated in a currency other than US dollars then the threshold limits must be converted into the currency in which the accounts are denominated before determining if they apply.

This should be done using a published spot rate of the 31 December of the year being reporting upon. In the case of an insurance contract or annuity contract, the most recent contract anniversary date when applicable.

In the case of closed accounts the spot rate to be used is the rate on the date the account was closed.

### ***Example 1***

The threshold to be applied to GBP denominated Pre-existing Individual Depository Accounts when a published spot rate as of 31 December 2013 is 1.6500 would be £30,303. (\$50,000/1.6500)

### ***Example 2***

A Pre-existing Insurance Contract is valued at £155,000 as of 30 April 2013. In order to be measured against the \$250,000 threshold, the Financial Institution can use the spot rate at 30 April 2013.

Alternatively a Financial Institution could convert non-US dollar balances into US dollars and then apply the thresholds. Regardless of the method of conversion, the rules for determining the spot rate apply.

The method of conversion must be applied consistently.

Examples of acceptable published exchange rates include, Reuters, Bloomberg, and Financial Times.

## **12.16. Change of circumstances**

A change in circumstances includes any change to or addition of information in relation to the account holder's account (including the addition, substitution, or other change of an account holder). These changes include any change to or addition of information to any account associated with such account.

A change of circumstance will only have relevance if the change to or addition of information affects the status of the account holder for the purposes of the Agreements. For instance, a change of address within the same jurisdiction would not indicate a change of circumstances.

Associated accounts are those accounts that are associated through the aggregation rules or where a New Account is treated as being a pre-existing obligation. See Section 11.18 for aggregation and Sections 14 and 16 for pre-existing obligation rules.

### ***Example 1***

Where an account holder with a Pre-existing Account opens a New Account that is linked to the Pre-existing Account in the Financial Institution's computer systems and, as part of the account opening process, a US telephone number is provided, then this would constitute a change in circumstance with respect to the Pre-existing Account.

The change will only be relevant if it indicates that an account holder's status has changed. That is, it either indicates that they are a Specified Person or that they are no longer a Specified Person.

If there is a change of circumstances that causes the Financial Institution to know or have reason to know that the original self-certification (such as one obtained on the opening of a New Individual Account) is incorrect or unreliable, the Financial Institution can no longer rely on the original self-certification.

The Financial Institution should then obtain a new self-certification that establishes whether the account holder is a US citizen or where he is tax resident.

In the event that there is a change in circumstance which indicates a change in the account holder's status, the Financial Institution should verify the account holder's actual status in sufficient time to allow it to report the account, if required, in the next reportable period.

If the account holder fails to respond to a Financial Institution's requests for a self-certification or for other documentation to verify the account holder's status, then the Financial Institution should treat the account as a Reportable Account. This should be done until the Financial Institution is given the necessary information to be able to correctly verify the status.

### **12.17. Assignment or Sale of Cash Value Insurance Contract**

A cash value insurance contract such as an endowment policy may be the subject of assignment or sale by the beneficial owner of the policy. Such an assignment or sale will result in the Reporting Financial Institution having to consider the reportable status of the new beneficial owner of the policy.

#### ***Example 1***

An individual holds a mortgage with lender A, and as part of their mortgage arrangements they hold an endowment policy. This endowment was taken out by the individual borrower and although the endowment is part of the mortgage arrangements it is the individual who is beneficially entitled to receive sums payable on the surrender or redemption of the policy (for instance they may be able to keep amounts payable under the endowment if they are able to pay off the mortgage from an alternative source).

The borrower takes out a mortgage with a new lender but under the terms of the mortgage agreement they keep their existing endowment. In this case the endowment policy has not been assigned, even if the policy is named in the underlying mortgage arrangement.

The endowment is an individual account and continues to be held by the same beneficial owner (the borrower).

#### ***Example 2***

The same individual holds a mortgage with lender B, and as part of their mortgage arrangements they have taken out an endowment policy. However in this case mortgage lender B (which is a financial institution) has the direct benefit of the endowment policy such that they are beneficially entitled to receive sums payable on the surrender or redemption of the policy, or the sum insured in the event of the death of the borrower. In this case mortgage lender B is an Entity Account Holder. The borrower takes out a new mortgage with mortgage lender C, repays the existing loan and the financial institution assigns the benefit of the policy to mortgage lender C. The account with mortgage lender C is treated as a new account; the Reporting Financial Institution must determine the status of the new account holder mortgage lender C.

In all likelihood, mortgage lender C will also be a UK Financial Institution or other Partner Jurisdiction Financial Institution, which can be identified on the basis of publicly available information.

### ***Example 3***

Individual X holds an endowment policy with a Reporting Financial Institution. This is a Financial Account. Individual X sells the benefit of the policy to another person – Individual Y. Individual Y will be subject to the due diligence procedures as a new individual account holder. This is a different situation from a new account being opened where the Financial Institution has direct contact with the individual and if that individual does not provide the necessary information the Financial Institution can simply turn down the business.

Where there is an assignment the Financial Institution has no choice in the matter and must therefore take reasonable steps to obtain the necessary information from the new owner of the policy. If the new owner fails to provide a valid self-certification, despite the reasonable efforts of the Financial Institution to obtain one, the account would become reportable.

### **12.18. Introducers**

Under the TCI AML Regulations a TCI Financial Institution may accept business from an introducer provided that the Financial Institution has an agreement with that introducer that it can access the KYC information that the introducer has collected. The Financial Institution is not required to hold that information directly.

Regulation 14 and 15 of the AML Regulations makes provision for due diligence to be exercised for purposes of the use of an introducer, where at regulation 15, it provides that the FI shall use an introducer if there is written undertaking by that introducer, amongst others, that the introducer has applied customer due diligence measures.

For the purposes of applying the Agreements, the Financial Institutions are not required to undertake any further due diligence that is required by the TCI AML Regulations unless specifically set out in the Agreements. Therefore if the Financial Institution does not hold the KYC information and as a result cannot identify any indicia, it will be unable to report in respect of that account. This does not mean that the account is not reportable but recognizes that the Financial Institution may not be in a position to undertake that reporting.

### **12.19. Mergers or Bulk Acquisitions of Accounts**

Where a Financial Institution acquires accounts by way of a merger or bulk acquisition of accounts, the Financial Institution can rely on the status of account holders as determined by a predecessor that is a Reporting Model 1 Financial Institution, US withholding agent, or a Participating Financial Institution for a period of six months. This is provided that the predecessor Financial Institution has met its due diligence obligations.

The Financial Institution may continue to rely on the due diligence work of the predecessor beyond the six month period where the documents that it holds, including any documentation (or copies of documentation) that was acquired as part of the merger or acquisition, continues to support the claimed status of account holders. An account holder's status will need to be verified

by the acquiring Financial Institution in accordance with the due diligence procedures should the acquirer have reason to know that it is incorrect or if there is a change in circumstance.

Where a Deemed Compliant Financial Institution becomes part of a group as the result of a merger or acquisition, the status of any account maintained by the Deemed Compliant Financial Institution can be relied upon unless there is a change in circumstance in relation to the account.

### ***12.19.1. Merger of Investment Entities***

Mergers of Investment Entities can be different to mergers of Custodial Institutions or Depository Institutions. The Financial Accounts of Investment Entities are its Equity and Debt Interest, the merger of two such entities creates a series of New Accounts in the surviving entity.

Mergers of Investment Entities will normally involve a surviving fund taking over the assets of the merging fund in exchange for issuing shares or units to the investors of the merging fund. The shares or units in the merging fund are then extinguished. The new shares in the surviving fund will be New Accounts except where both funds are sponsored by the same sponsor – see below.

There are special rules that apply to the documentation of New Accounts on a merger of Investment Entities. These rules were implemented so that fund mergers were not impeded, or held up by the requirement to perform due diligence on a series of New Accounts. There are a number of potential scenarios depending upon whether the merging fund (the investors of which will create the New Accounts in the surviving fund) is a TCI Financial Institution and whether it is a Reporting or Participating Financial Institution Deemed Compliant Financial Institution or Non-Participating Financial Institution. These are considered below.

#### ***Example 1 - More than one fund sponsored by the same Turks and Caicos Islands sponsor***

Where both funds are sponsored TCI funds with the same TCI sponsor, no New Accounts are created. This is because for Sponsored Financial Institutions, whether a Financial Account is a New Account or not is determined by reference to whether it is new to the sponsor (for example the fund manager), and not whether it is new to the Sponsored Financial Institution (the fund).

#### ***Example 2 - Merging fund is a Reporting Financial Institution***

Where the merging fund is a Reporting Financial Institution (including a Sponsored Financial Institution, where the funds do not share the same sponsor), a FATCA Partner Jurisdiction Financial Institution or a Participating Foreign Financial Institution, the surviving fund can rely on the account identification and documentation performed by the merging fund. The surviving fund will not need to undertake any further account due diligence in order to comply with its FATCA obligations. It can continue to use the same account classification as the merging fund until there is a change in circumstances for the Financial Account.

### ***Example 3 - Merging fund is not a Reporting Financial Institution***

Where the merging fund is not a Reporting Financial Institution, a FATCA Partner Jurisdiction Financial Institution or a Participating Foreign Financial Institution (because it is a Deemed Compliant fund, a Non-Participating TCI Financial Institution or a Non-Participating Foreign Financial Institution), the surviving fund will need to undertake account identification procedures on the New Accounts. However, in these circumstances the account identification procedures will be limited to those that are required for Pre-existing Accounts (See Sections 13 and 15) and should be carried out at the latest by the 31 December following the date of the merger or 31 December of the year following the year of the merger or if the merger takes place after 30 September of any calendar year.

### ***12.19.2. Mergers and Acquisitions in relation to Pre-existing Cash Value Insurance Contracts***

It is fairly common for Insurance Companies to sell off “back books” of business to another company, especially when the Insurance Company no longer sells that type of business. Where this relates to Pre-existing Accounts, the transferor can continue to rely on the original identification of the transferee company. If the transferee company was prohibited from selling the business into the US in relation to the US Agreement (See Section 12.4) the policies will remain out of scope, and the transferor company does not need to undertake any further due diligence checks.

### **12.20. Discretionary Trusts**

It is recognized, specifically in the case of discretionary trusts, that the individual beneficiaries are not always identified under AML procedures. This is sometimes not done until the first distribution is made to that beneficiary by the trust.

If the trust has made no such distributions and the beneficiaries have not been identified through AML procedures no further due diligence or reporting procedures are required. Identification is sometimes not done as they are not required under TCI law or cannot be determined due to the discretionary nature of the trust.

Each time a distribution is made, the trustee must ensure that all recipients who have not previously been identified are identified. They must undertake the due diligence procedures for identifying Specified US Persons.

## **13. PRE-EXISTING INDIVIDUAL ACCOUNTS**

### **13.1. General**

The information in this section applies to both Agreements except in relation to indicia. Separate sections covering indicia for the UK and US Agreements have been included.

A Pre-existing Individual Account is a Financial Account maintained by a Financial Institution as of 30 June 2014.

Pre-existing Individual Accounts will fall into one of four categories depending on the balance or value of the account. These are:

- a) Financial Accounts below the threshold exemption limit (15.3)
- b) Cash Value Insurance Contracts and Annuity Contracts unable to be sold to US residents (US Agreement only) (15.4)
- c) Lower Value Accounts (15.5 and 12.6)
- d) High Value Accounts. (12.7 to 12.11)

### **13.2. Reportable Accounts**

Pre-existing Individual Accounts will be reportable if they are not exempt (see Section 5) and the Financial Institution has identified relevant indicia, and those indicia have not been cured or repaired.

Where a Pre-existing Lower Value or High Value Individual Account closes prior to the Financial Institution carrying out its due diligence procedures, the account still needs to be reviewed (other than where the account was closed prior to 30 June 2014 as in that case it is not a Pre-existing Account). Where, following the due diligence procedures the account is found to be reportable, the Financial Institution must report the information for the closed account as required.

Once an account is identified as a Reportable Account the account will remain reportable for all subsequent years unless the account holder ceases to be a Specified Person (including death), unless it is a Depository Account.

Whether a Depository Account is a Reportable Account is contingent on whether the balance or value is above the reporting threshold of \$50,000 and an election has not been made to apply the threshold exemption limit. A Depository Account is the only type of account where the reporting requirement can alter annually even where the account holder remains a Specified Person.

### ***Example 1***

A Depository Account belonging to a Specified Person with a balance of \$65,000 at 31 December will need to be reported. The following year there is a large withdrawal from the account bringing the balance down to \$20,000 at 31 December. As the balance is now below the \$50,000 threshold the account does not need to be reported.

### **13.3. Threshold Exemptions that apply to Pre-existing Individual Accounts**

The U.S. Regulations allow for Financial Institutions to elect to disregard the threshold exemptions when reviewing and identifying Pre-existing Individual Accounts. The election can apply to all Financial Accounts or to a clearly identifiable group of accounts, such as by the line of business or the location where the account is maintained.

The following accounts do not need to be reviewed, identified or reported to the Exchange of Information Unit unless the TCI Financial Institution has elected not to apply the thresholds and instead review all accounts.

- a) Any Depository Accounts with a balance or value of \$50,000 or less;
- b) Pre-existing Individual Accounts with a balance not exceeding \$50,000 at the 30 June 2014, unless the account subsequently becomes a High Value Account;
- c) Pre-existing Individual Accounts that qualify as Cash Value Insurance Contracts or Annuity Contracts with a balance or value of \$250,000 or less at the 30 June 2014, unless the account subsequently becomes a High Value Account.

### **13.4. Pre-existing Cash Value Insurance Contracts or Annuity Contracts unable to be sold to US residents – US Agreement only**

Pre-existing Cash Value Insurance Contracts or Annuity Contracts that are unable to be sold to US residents because of legal or regulatory restrictions or are unable to be sold to US residents by way of express prohibition language in the policy document do not need to be reviewed, identified or reported. This also applies to Insurance policies written in Trust or assigned to a Trust on or before 30 June 2014.

This exemption only applies where both of the following conditions are met:

- The Financial Institution's Cash Value Insurance Contracts and Annuity Contracts cannot be sold into the US without legal or regulatory authority, **and**
- Local law requires reporting or withholding in respect of these products.

No existing TCI law prevents the sale of Cash Value Insurance products or Annuity Contracts to US residents. However, the sale of contracts to US residents will be considered effectively prevented if the issuing Specified Insurance Company (not including any US branches) is not licensed to sell insurance in any state of the US and the products are not registered with the Securities and Exchange Commission or are unable to be sold to US residents by way of express prohibition language in the policy document.

### ***13.4.1. Assignment of Pre-existing Insurance Contracts***

When a Pre-existing Cash Value Insurance Contract or Annuity Contract is assigned to another person then this will be treated as a New Account. This is to ensure that Pre-existing Insurance Contracts assigned after 1 July 2014 to US Persons are correctly identified and reported where necessary.

Once the Insurance Company becomes aware that an assignment has been made, the Insurance Company will need to carry out checks on the new account holder within the timescales for New Accounts. If the policyholder is reluctant to self-certify their status or provide relevant documentation, the Insurance Company will assume the person to be a US Person and will provide the relevant reports to the Exchange of Information Unit on an annual basis.

### **13.5. Lower Value Accounts**

These are Pre-existing Individual Accounts with a balance or value that exceeds \$50,000 or \$250,000 for Cash Value Insurance Contracts and Annuity Contracts, but does not exceed \$1,000,000.

### **13.6. Electronic Record Searches and Lower Value Accounts**

#### ***13.6.1. Identifying indicia - US Agreement***

A Financial Institution must review its electronically searchable data for any of the following US indicia.

- (a) Identification of the account holder as a US citizen or resident;
- (b) Unambiguous indication of a US place of birth;
- (c) Current US mailing or residence address (including PO Box).
- (d) Current US telephone number;
- (e) Standing instruction to transfer funds to an account maintained in the US.
- (f) Current effective power of attorney or signatory authority granted to a person with a US address;
- (g) An 'in care of' or 'hold mail' address that is the sole address the Financial Institution holds for the account holder. An 'in care of' or 'hold mail' address is **not** treated as US indicia for the purposes of electronic searches, but is a US indicia where a review of paper records is required.

Where none of the indicia listed above are discovered through an electronic search, no further action is required in respect of Lower Value Accounts, unless there is a subsequent change of circumstance that results in one or more US indicia being associated with the account. Where that happens the account will become reportable unless further action is taken by the Financial Institution to attempt to cure or repair the indicia. (See Section 12.6.2.)

A Financial Institution will not be treated as having reason to know that an account holder's status

is incorrect because it retains information or documentation that may conflict with its review of the account holder's status if it was not necessary under the procedures described in this Section to review that information or documentation.

### ***Example***

In regards to Lower Value Accounts, where only an electronic search is required and no US indicia are identified, the Financial Institution will not have reason to know that the account holder was a US Person. The aforementioned would apply to instances where the Financial Institution has a copy of a US passport for the account holder but this was not referenced in the electronic search. This applies only if the Financial Institution was not required to or had not previously reviewed that documentation or information in accordance with the Agreements.

Where a Financial Institution has started its review, found indicia and attempted to verify or cure the indicia by contacting the account holder, but the account holder does not respond, the account should be treated as reportable 90 days after initiating contact.

### ***13.6.2. Curing indicia - US Agreement***

Where any of the indicia listed in 12.6.1 are found, the presumption is that the account is reportable. In certain circumstances however the indicia can be cured such that evidence shows that the account holder is not a Specified US Person.

Where the indicia found indicates that the account holder is a US citizen or US resident by birth, the account needs to be reported unless the Financial Institution obtains or currently maintains a record of all of the following:

- a) If all the telephone numbers associated with the account are US telephone numbers:
  - a self-certification showing that the account holder is neither a US citizen nor a US resident for tax purposes; and
  - evidence of the account holder's citizenship or nationality in a country other than the US (for example passport or other government issued identification).
- b) If there are both US and non-US telephone numbers associated with the account:
  - a self-certification that the account holder is neither a US citizen nor a US resident for tax purposes; or
  - a form of acceptable documentary evidence which establishes the account holder's non-US status. See Section 12.6.3.

Where there is uncertainty whether a phone number is US (for example a mobile phone number) a Financial Institution should take reasonable steps (in accordance with the relevant due diligence requirements for the type of account) to establish whether or not it is a US phone number. It should not then be treated as a US phone number if its status remains uncertain.

In the case of any number that is known not to relate to a telephone, for example a permanent fax number, the number should not be treated as a US indicia. However if there is any doubt over the function, or the number has a combined function at least one of which is as a phone number, the

number should be treated as US indicia if it is a US number.

Where the indicium found is an unambiguous US place of birth then the account needs to be reported unless the Financial Institution obtains or currently maintains a record of all of the following:

- a self-certification showing that the account holder is neither a US citizen nor a US resident for tax purposes,
- evidence of the account holder's citizenship or nationality in a country other than the US (for example passport or other government issued identification); **and**
- a copy of the account holder's Certificate of Loss of Nationality of the United States or a reasonable explanation of the reason the account holder does not have such a certificate or the reason the account holder did not obtain US citizenship at birth.

Where the indicia found fall within 14.6.1 c), d), e,) or f) the account must be reported unless the Turks and Caicos Islands Financial Institution obtains or currently maintains a record of the following:

- a self-certification that the account holder is neither a US citizen nor a US resident for tax purposes; **and**
- a form of acceptable documentary evidence which establishes the account holder's non-US status. See Section 13.2.

There will be a standing instruction if the account holder has mandated the Financial Institution to make repeat payments without further instruction from the account holder, to another account that can clearly be identified as being an account maintained in the US.

Instructions to make an isolated payment will not be a standing instruction even when given significantly in advance of the payment being made.

### ***13.6.3. Identifying indicia - UK Agreement***

A Financial Institution must review its electronically searchable data for any of the following UK indicia.

- a) Identification of the account holder as a UK tax resident.
- d) Current UK mailing or residence address (including PO Box, 'in care of' or 'hold mail' address).
- e) Current effective power of attorney or signatory authority granted to a person with a UK address.
- d) For accounts that are not Depository Accounts the Reporting Financial Institution must also review electronically searchable data maintained by them for standing instructions to transfer funds to an account maintained in the UK.

Where none of the indicia listed above are discovered through an electronic search, no further

action is required in respect of Lower Value Accounts, unless there is a subsequent change of circumstance that results in one or more UK indicia being associated with the account. Where that happens the account will become reportable unless further action is taken by the Financial Institution to attempt to cure or repair the indicia. (See Section 14.6.4.)

A Financial Institution will not be treated as having reason to know that an account holder's status is incorrect because it retains information or documentation that may conflict with its review of the account holder's status if it was not necessary under the procedures described in this Section to review that information or documentation.

#### **13.6.4. Curing indicia - UK Agreement**

Where any of the indicia listed in 14.6.3. are found, the presumption is that the account is reportable. In certain circumstances however the indicia can be cured such that evidence shows that the account holder is not a Specified UK Person.

Where Account Holder information contains a current mailing or residence address (including a post office box, "in-care-of" or "hold mail" address) in the other Party, the Reporting Financial Institution obtains or has previously reviewed and maintains a record of:

- (1) a self-certification that the Account Holder is not resident in the UK for tax purposes;  
*and*
- (2) *either:*
  - (a) A certificate of residence for tax purposes issued by an appropriate official of the country or jurisdiction in which the Account Holder claims to be resident; *or*
  - (b) the provision of a local tax identification number of the country or jurisdiction in which the Account Holder claims to be resident, *and*, a passport issued by the jurisdiction in which the Account Holder claims to be resident.

Where Account Holder information contains a currently effective power of attorney or signatory authority granted to a person with an address in the other Party, or in the case of Financial Accounts other than Depository Accounts where Account Holder information contains standing instructions to transfer funds to an account maintained in the other Party, the Reporting Financial Institution obtains or has previously reviewed and maintains a record of:

- (1) A self-certification that the Account Holder is not resident in the UK for tax purposes; and
- (2) Documentary evidence, establishing the Account Holder's non-residence status.

#### **13.7. High Value Accounts**

High Value Accounts are Pre-existing Individual Accounts with a balance or value that exceeds \$1,000,000 at 30 June 2014 or at 31 December of any subsequent year.

### **13.8. Electronic Record Searches and High Value Accounts**

A Financial Institution must review its electronically searchable data in the same manner as for Lower Value Accounts.

### **13.9. Paper Record Searches and High Value Accounts**

#### *US Agreement*

A paper record search will not be required where all the following information is electronically searchable:

- a) The account holder's nationality or residence status;
- b) The account holder's residence address or mailing address currently on file;
- c) The account holder's telephone number(s) currently on file;
- d) Whether there are standing instructions to transfer funds to another account;
- e) Whether there is a current "in-care-of" address or "hold mail" address for the account holder; and
- f) Whether there is any power of attorney or signatory authority for the account.

For this purpose, electronically searchable means that the Financial Institution has a system that is capable of capturing this data even if the searchable databases do not include these specific fields; for example optical recognition systems.

The paper record search, where necessary, should include a review of the current customer master file and, to the extent they are not contained in the current master file, the following documents associated with the account and obtained by the Financial Institution within the last 5 years.

- a) The most recent documentary evidence collected with respect to the account;
- b) the most recent account opening contract or documentation;
- c) the most recent documentation obtained by the Financial Institution for AML/KYC procedures or for other regulatory purposes;
- d) any power of attorney or signature authority forms currently in effect; and
- e) any standing instructions to transfer funds currently in effect.

These should be reviewed for any US indicia as set at Section 12.6.1. A Financial Institution can rely on the review of High Value Accounts performed by third party distributors, for example financial advisers, on their behalf where there is a contract obligating the distributor to perform the review.

### ***UK Agreement***

A paper record search will not be required where all the following information is electronically searchable:

- a) the account holder's residence address and mailing address currently on file;
- b) in the case of Financial Institutions other than Depository Accounts whether there are standing instructions to transfer funds in the account to another account;
- c) whether there is a current "in-care-of" address or "hold mail" address for the account holder; and
- d) whether there is any power of attorney or signatory authority for the account.

For this purpose, electronically searchable means that the Financial Institution has a system that is capable of capturing this data even if the searchable databases do not include these specific fields; for example optical recognition systems.

The paper record search, where necessary, should include a review of the current customer master file and, to the extent they are not contained in the current master file, the following documents associated with the account and obtained by the Financial Institution within the last 5 years:

- a) The most recent documentary evidence collected with respect to the account;
- b) the most recent account opening contract or documentation;
- c) the most recent documentation obtained by the Financial Institution for AML/KYC procedures or for other regulatory purposes;
- d) any power of attorney or signature authority forms currently in effect; and
- e) in the case of Financial Institutions other than Depository Accounts any standing instructions to transfer funds currently in effect.

These should be reviewed for any UK indicia as set at Section 12.6.3.

A Financial Institution can rely on the review of High Value Accounts performed by third party distributors, for example financial advisers, on their behalf where there is a contract obligating the distributor to perform the review.

### ***13.9.1. Exceptions***

A Financial Institution is not required to perform the paper record search for any Pre-existing Individual Account for which it has retained a withholding certificate. This is also not required where the Financial Institution also has acceptable documentary evidence which establishes the account holder's non-US status.

### **13.10. Qualified Intermediaries**

A Financial Institution that has previously established an account holder's status in order to meet its obligations under a Qualified Intermediary, Withholding Partnership Withholding Trust Agreement, or to fulfil its reporting obligations as a US payor under Chapter 61 of the IRS Code, can rely on that status for the purposes of the Agreement where the account holder has received a reportable payment under those regimes. The Financial Institution is not required to perform the electronic search, or in respect of High Value Accounts a paper record search, in relation to those accounts. Any TCI Financial Institution that falls into this category is required, however, to perform the Relationship Manager enquiry where the accounts are High Value Pre-existing Individual Accounts.

### **13.11. Relationship Manager**

In addition to the electronic and paper searches, the Financial Institution must also consider whether any Relationship Manager associated with the High Value Account (including any accounts aggregated with such account) has actual knowledge that would identify the account holder as a Specified Person.

If the Relationship Manager has actual knowledge that the account holder is a Specified US Person then the account must be reported unless the indicia can be cured.

For these purposes a Relationship Manager is assumed to be any person who is an officer or other employee of the Financial Institution assigned responsibility for specific account holders on an ongoing basis, and who advises the account holders regarding their accounts and arranges for the overall provision of financial products, services and other related assistance.

A person is only considered a Relationship Manager for these purposes with respect to an account with a balance or value exceeding \$1,000,000, taking into account the aggregation rules.

A Financial Institution must also ensure that it has procedures in place to capture any change of circumstance in relation to a High Value Individual Account made known to the Relationship Manager in respect of the account holder's status.

### ***Example***

If a Relationship Manager is notified that the account holder has a new mailing address in the US,

this would constitute a change in circumstance. The Financial Institution would either need to report the account or obtain the appropriate documentation to cure or repair that indicia.

The electronic search and paper search are only required to be undertaken once for each account identified as a High Value Account. It is however, the responsibility of the Relationship Managers to ensure that any knowledge regarding the account holder's status or aggregation of accounts is captured are constant and ongoing.

### **13.12. Effects of Finding US or UK Indicia**

Where one or more indicia are discovered through the enhanced review procedures and none of the cures or repairs can be applied, the Financial Institution must treat the account as a Reportable Account for the current and all subsequent years.

Where no indicia are discovered in the electronic search, the paper record search or by making enquiries of the Relationship Manager, no further action is required unless there is a subsequent change in circumstances.

If there is a change in circumstances that results in one or more of the indicia listed in this Section being associated with the account and none of the cures or repairs can be applied, it must be treated as a Reportable Account for the year of change and all subsequent years. This applies for all accounts except Depository Accounts, unless the account holder ceases to be a Specified Person.

Where a Financial Institution has started its review, indicia are found and attempts made to verify or cure those indicia by contacting the account holder, but the account holder does not respond, the account should be treated as reportable 90 days after initiating contact. The 90 day limit is to allow the account holder sufficient time to respond to requests for information.

### **13.13. Timing of reviews**

#### ***13.13.1. Lower Value Accounts***

The review of Pre-existing Individual Accounts that are Lower Value Accounts at 30 June 2014 must be completed by 30 June 2016.

Pre-existing Lower Value Accounts that are identified as reportable are only reportable from the year in which they are identified as such.

#### ***Example***

The due diligence procedures are carried out on a Lower Value Account during March 2015 and the account is determined as reportable. The Financial Institution is only required to report on the account information for the year ending 31 December 2015 onwards.

### ***13.13.2. High Value Accounts***

The review of Pre-existing Accounts that are High Value Accounts at 30 June 2014 must be completed by 30 June 2015.

#### ***Example***

The due diligence procedures are carried out on a High Value Individual Account during April 2015 and the account is determined as reportable. The Financial Institution is required to report on the account for 2015 and subsequent years.

Where the balance or value of an account does not exceed \$1,000,000 as of 30 June 2014, but does as of the last day of 31 December 2015 or a subsequent calendar year, the Financial Institution must perform the procedures described for High Value Accounts by 30 June of the year following the year in which the balance or value exceeded \$1,000,000.

## 14. NEW INDIVIDUAL ACCOUNTS

### 14.1. General

A New Individual Account is an account opened on or after 1 July 2014.

When opening a New Individual Account, the Financial Institution must obtain the TIN for Specified US Persons or the date of birth and National Insurance Number for Specified UK Persons. See sections 16.2.2 and 16.2.3 respectively.

### 14.2. Reportable Accounts

Where it is established that the holder of a New Individual Account is a Specified Person then the account must be treated as a Reportable Account.

In this instance, in respect of Specified US Persons, the Financial Institution is required to retain a record of an IRS form W-9 or US TIN. The US TIN may be retained in any manner and does not need to be on an IRS form. There is no equivalent requirement for Specified UK Persons.

### 14.3. Threshold Exemptions that apply to New Individual Accounts

The TCI Legislation permits Financial Institutions to apply the threshold exemptions when reviewing and identifying New Individual Accounts, in the same way as for Pre-existing Individual Accounts (see 12.3.).

The threshold exemption for New Individual Accounts is \$50,000 for Depository Accounts and Cash Value Insurance Contracts. These do not need to be reviewed, identified or reported unless the account balance exceeds \$50,000.

There is no threshold exemption for any other type of Financial Account.

If a Financial Institution makes an election under the Agreement to disregard the threshold exemptions for Reportable Accounts, it will need to review and identify the status of all of its New Individual account holders.

### 14.4. New Accounts for holders of Pre-existing Accounts

Where a Pre-existing account holder wishes to open a New Account with the same Financial Institution, there is no need to re-document the account holder as long as:

- the appropriate due diligence requirements have already been carried out, or are in the process of being carried out for the Pre-existing Account; **and**
- the accounts are treated as linked or as a single account or obligation for the purposes of applying any of the due diligence requirements.

This means that the standards of knowledge to be applied, the change of circumstances rules and aggregation requirements will apply to all accounts held by the account holder.

Therefore where there is a change of circumstance or where the Financial Institution has reason to know that the account holder's status is inaccurate in relation to one account, this will apply to all

other accounts held by the account holder.

Where the Financial Institution applies thresholds, the accounts must be treated as linked for aggregation purposes. This can also be applied on a group basis where documentation is shared within the group. See Section [11.12].

#### **14.5. Identification of New Individual Accounts**

For accounts that are not exempt, and for accounts that previously qualified for the threshold exemption, but now have a balance or value above the threshold, the Financial Institution can carry out the following procedures to determine the account holder's status:

- 1) Obtain a self-certification (See Section 13.13.) that allows the Financial Institution to determine where the account holder is tax resident; **and**
- 2) Confirm the reasonableness of this self-certification based on the information the Financial Institution obtains in connection with the opening of the account, including any documentation obtained for AML/KYC procedures.

For the purpose of the US Agreement a US citizen is considered to be resident in the US for tax purposes even where they are also tax resident in another country.

In the absence of a valid self-certification being provided by the account holder, the account would become reportable.

Alternatively the Financial Institution can retain documentary evidence of the type identified in Section [11.6] and confirm the reasonableness of the documentary evidence based on the information the Financial Institution obtains in connection with the opening of the account. This can include any documentation obtained for AML/KYC or other regulatory procedures.

If the information provided during the account opening process contains any of the indicia described in Section 14.6. The account will become reportable unless further action is taken by the Financial Institution to attempt to cure or repair the indicia. (See Section 13.6.2.).

The identification of these accounts should be completed as soon as practicable after the account has been opened. It should be noted that monies cannot be transferred to the account until such time as the AML procedures have been completed. The expectation would be that this would follow AML/KYC time limits. For accounts that were previously exempt because of the threshold exemptions being applied but no longer are, the Financial Institution must determine the account holder's status in sufficient time to report the account. This must be done if necessary, for the year in which the account ceased to be exempt.

#### **14.6. Group Cash Value Insurance Contracts or group Annuity Contracts**

A Financial Institution can treat an account that is a group Cash Value Insurance Contract or a group Annuity Contract, and that meets the requirements set out below, as a non-US account. This can be done until the date on which an amount is payable to an employee/certificate holder or beneficiary, provided the Financial Institution obtains certification from an employer that no employee/certificate holder (account holder) is a US Person.

A Financial Institution is not required to review all the account information collected by the employer

to determine if an account holder's status is unreliable or incorrect.

The requirements are that:

- the group Life Insurance Contract or group Annuity Contract is issued to an employer and covers twenty-five or more employees/certificate holders; **and**
- the employee/certificate holders are entitled to receive any contract value; and to name beneficiaries for the benefit payable upon the employee's death; **and**
- the aggregate amount payable to any employee/certificate holder or beneficiary does not exceed \$1,000,000.

#### **14.7. Accounts held by beneficiaries of a Cash Value Insurance Contract that is a Life Insurance Contract**

A Financial Institution can treat an individual beneficiary (other than the owner) who receives a death benefit under a Cash Value Insurance Contract that is a Life Insurance Contract as a non-US Person. The account can also be treated as a non-US account unless the participating Financial Institution has knowledge or reason to know that the beneficiary is a US Person.

#### **14.8. Reliance on Self-certification and Documentary evidence**

Where information already held by a Financial Institution conflicts with any statements or self-certification it may not rely on that evidence or self-certification. The same applies where the Financial Institution has reason to believe that the self-certification or other documentary evidence is incorrect.

A Financial Institution will be considered to have reason to know that a self-certification or other documentation associated with an account is unreliable or incorrect if, based on the relevant facts; a reasonably prudent person would know this to be the case.

## 15. PRE-EXISTING ENTITY ACCOUNTS

### 15.1. General

Pre-existing Entity Accounts are those accounts that are in existence at 30 June 2014. On May 2, 2014 the U.S. Department of the Treasury and the IRS issued Notice 2014-33 which provided that Foreign Financial Institutions have until June 30, 2016 to complete FATCA customer due diligence obligations regarding entity accounts opened before January 1, 2015.

### 15.2. Reportable Accounts

An account holder of a Pre-Existing Entity Account must be classified as either:

- a) a Specified Person;
- b) a US or UK Person other than a Specified Person;
- c) a TCI Financial Institution or other Partner Jurisdiction Financial Institution;
- d) a Participating FFI, a Deemed Compliant FFI or an Exempt Beneficial Owner;
- e) an Active NFFE or Passive NFFE; **or**
- f) a Non-Participating Financial Institution.

A Pre-Existing Entity Account is only reportable where the account is held by one or more entities that are Specified Persons or by Passive NFFEs with one or more Controlling Persons who are Specified Persons.

Under the due diligence procedures in Annex 1 of the US Agreement, any account held by an entity that is a Foreign Financial Institution shall NOT be held to be a reportable account, regardless of the identity of the Controlling Persons.

If the account holder is one of those listed below then the account **is not** a Reportable Account:

- a) a US or UK Person other than a Specified Person;
- b) a TCI Financial Institution or other Partner Jurisdiction Financial Institution;
- c) a Participating FFI, a Deemed Compliant FFI or an Exempt Beneficial Owner;
- d) an Active NFFE; **or**
- e) a Passive NFFE where none of the Controlling Persons are Specified Persons.

Where a Pre-existing Entity Account closes prior to the Financial Institution carrying out its due diligence procedures, then the account is still required to be reviewed. Where following the due diligence procedures the account is found to be reportable, the Financial Institution must report the information as required. This should only apply to accounts that exist at 30 June 2014 and close before 30 June 2016 as all accounts should have been reviewed by that date. This will not apply to accounts that are closed prior to 30 June 2014.

If the account holder is a Non-Participating Financial Institution (NPMI), only payments made to the NPMI will be reportable.

An entity account will also be reportable where a self-certification is not provided, the entity's status cannot be determined from information held or that is publically available. In this situation the account should continue to be reported until such time that the entity's status is correctly identified.

### **15.3. Threshold Exemptions that apply to Pre-existing Entity Accounts**

The Regulations allow for Financial Institutions to elect to disregard the threshold exemptions when reviewing and identifying Pre-existing Entity Accounts in the same way as for Individual Accounts.

If the threshold exemption is applied and where the account balance or value does not exceed \$250,000 at 30 June 2014 there is no requirement to review, identify or report the account until the account balance exceeds \$1,000,000, at 31 December of a subsequent calendar year.

If a Financial Institution makes an election under the Agreement to disregard the threshold exemption, it will need to review and identify all Pre-existing Entity Accounts.

### **15.4. Standardized Industry Codes and indicia for Pre-existing Entities**

A Financial Institution can rely on information previously recorded in its files in addition to standardized industry codes, in determining the status of an entity. For these purposes, a standardized industry code may be any coding system employed by the Financial Institution.

The term standardized industry code means a code that is part of a coding system used by the Financial Institution to classify account holders by business type. It must have been utilized by the later of 1 January 2012, or six months after the date the Financial Institution was formed or organized.

Where a standardized industry code is used, the Financial Institution cannot rely on this to determine the entity's status if there are identifying US or UK indicia, as described in sections 12.6.1 and 12.6.3 respectively.

If there are indicia, the Financial Institution may treat the entity as non-reportable if the Financial Institution obtains a self-certification for the entity and one form. The aforementioned in addition to acceptable documentary evidence which establishes the entity's non-US or non-UK status as appropriate such as a Certificate of Incorporation, would be sufficient.

### **15.5. Electronic Searches**

Electronic searches may be sufficient provided all of the TCI AML information is stored electronically and can be mined to identify the relevant information. If this is not the case, the search must include a paper review.

### **15.6. Identification of an entity as a Specified Person**

In order to identify if an entity is a Specified Person, information maintained for regulatory or customer relationship purposes (including information collected as part of any AML/KYC procedure) can be relied upon.

A place of incorporation or organization, or address or the indicia listed above in 14.6.1 or 14.6.3 would be examples of information indicating that an entity is a Specified Person of a particular jurisdiction.

Article 1(bb) of the US Agreement and Article 1(w) of the UK Agreement include a list of exceptions for Specified Persons. To avoid unnecessary reporting, a self-certification may be obtained from any entity that is believed to be within this definition, but where there is insufficient information held by the Financial Institution to allow it to make a correct determination.

### **15.7. Identification of an entity as a Financial Institution**

In order to identify whether an entity is a Financial Institution, information maintained for regulatory or customer relationship purposes (including information collected as part of any AML/KYC procedure) or a GIIN can be relied upon.

If the entity is a Financial Institution, including Non-Reporting Financial Institutions, that account is not a Reportable Account for the purposes of the Financial Institution that holds the Financial Account on behalf of the entity.

### **15.8. Identification of an entity as a Non-Participating Financial Institution (NPFI) (US AGREEMENT ONLY)**

If the account holder is a Financial Institution, but not a TCI Financial Institution, a Financial Institution in another Partner Jurisdiction or a Participating Financial Institution, then it should be treated as a Non-Participating Financial Institution.

This applies unless the entity provides a self-certification stating that it is a Certified Deemed Compliant Financial Institution, an Exempt Beneficial Owner, or unless the Reporting Financial Institution is able to verify that the entity is a participating Financial Institution or Registered Deemed Compliant Financial Institution. This can be done from its Global Intermediary Identification Number.

If the account holder is a Non-Participating Financial Institution then the Reporting Financial Institution will need to report on payments made to it.

### **15.9. Identification of an entity as a Non-Financial Foreign Entity (NFFE)**

When an entity account holder is not identified as either a Specified Person or a Financial Institution, the Financial Institution must consider whether the entity is a Passive NFFE and if any of the Controlling Persons of that entity are Specified Persons.

To determine whether the entity is a Passive NFFE, the Financial Institution must obtain a self-certification from the account holder establishing its status unless it has information in its possession or that is publicly available that enables the Financial Institution to reasonably determine whether or not the entity is an Active NFFE.

To identify the Controlling Persons of an entity, a Financial Institution may rely on information collected and maintained pursuant to AML/KYC procedures.

To determine whether the Controlling Persons of a Passive NFFE are Specified Persons, Financial Institutions may rely on:

- Information collected and maintained pursuant to AML/KYC procedures in the case of an account held by one or more Passive NFFEs, with a balance that does not exceed \$1,000,000, or
- A self-certification from an account holder or Controlling Person in the case of an account held by one or more Passive NFFEs, with a balance that exceeds \$1,000,000.

#### **15.10. Timing of reviews**

The review of Pre-existing Entity Accounts with an account balance or value that exceeds \$250,000 at 30 June 2014 must be completed by 30 June 2016.

The review of Pre-existing Entity Accounts with a balance or value that does not exceed \$250,000 at 30 June 2014, but exceeds \$1,000,000 as of 31 December 2015 or of any subsequent year, must be completed by 30 June of the following year.

## **16. NEW ENTITY ACCOUNTS**

### **16.1. General**

A New Entity Account is an account opened by or for an entity on or after 1 July 2014.

### **16.2. Reportable Accounts**

An account holder of a New Entity Account must be classified as either:

- a) a Specified Person;
- b) a US or UK Person other than a Specified Person;
- c) a Turks and Caicos Islands Financial Institution or other Partner Jurisdiction Financial Institution ;
- d) a Participating FFI, a Deemed Compliant FFI or an Exempt Beneficial Owner;
- e) an Active NFFE or Passive NFFE; **or**
- f) a Non-Participating Financial Institution.

New Entity Accounts will only be reportable where there is an account holder who is a Specified Person or is a Passive NFFE with one or more Controlling Persons who are Specified Persons, as with Pre-existing Entity Accounts.

If the account holder is one of those listed below then the account **is not** a Reportable Account:

- a) a US or UK Person other than a Specified Person;
- b) a Turks and Caicos Islands Financial Institution or other Partner Jurisdiction Financial Institution;
- c) a Participating FFI, a Deemed Compliant FFI or an Exempt Beneficial Owner;
- d) an Active NFFE; **or**
- e) a Passive NFFE where none of the Controlling Persons are Specified Persons.

### **16.3. Exemptions that apply to New Entity Accounts**

There are no threshold exemptions that apply to New Entity Accounts so there will be no need to apply any aggregation or currency conversion rules.

However, where a Financial Institution maintains credit card accounts, these do not need to be reviewed, identified or reported where the Financial Institution has policies or procedures that prevent the account holder establishing a credit balance in excess of \$50,000.

### **16.4. New Accounts for Pre-Existing Entity account holders**

Where a New Account is opened by an entity account holder who already has a Pre-existing

Account the Financial Institution may treat both accounts as one account for the purposes of applying AML/KYC due diligence. In these circumstances, the Financial Institution may choose to apply the identification and documentation procedures for either Pre-existing or New Accounts to derive the FATCA classification for any New Account or Accounts opened on or after 1 July 2014 by the same entity.

### **16.5. Identification of an entity as a Financial Institution**

A Financial Institution may rely on publicly available information, a GIIN or information within the Financial Institution's possession to identify whether an account holder is an Active NFFE, Participating FFI or a TCI or Partner Jurisdiction Financial Institution. In all other instances the Financial Institution must obtain a self-certification from the account holder to establish the account holder's status.

It is possible that the name of the entity with the GIIN does not reflect the name of the account holder. This might be the case for example with respect to a trust which is a Non-Reporting Financial Institution or a Sponsored Entity. A Financial Institution can rely on the self-certification from the Non-Reporting Financial Institution however should still confirm the validity of the GIIN of the Trustee or of the Sponsoring entity.

### **16.6. Identification of an entity as a Non-Participating Financial Institution (US AGREEMENT ONLY)**

If the entity is a TCI Financial Institution or a Financial Institution in another Partner Jurisdiction, no further review, identification or reporting will normally be required. The exception to this is if the Financial Institution becomes a Non-Participating Financial Institution following significant non-compliance.

If the account holder is a Financial Institution, but not a TCI Financial Institution, Financial Institution in another Partner Jurisdiction or a Participating Financial Institution, then the entity is treated as a Non-Participating Financial Institution.

This applies unless the Reporting Financial Institution:

- obtains a self-certification from the entity stating that it is a Certified Deemed Compliant Financial Institution, an Exempt Beneficial Owner, or an Excepted Financial Institution; **or**
- verifies its status as a Participating Financial Institution or Registered Deemed Compliant Financial Institution for instance by obtaining a GIIN.

If the account holder is a Non-Participating Financial Institution, then reports on certain payments made to such entities will be required.

### **16.7. Identification of an entity account holder as a Specified Person**

If the Financial Institution identifies the account holder of a New Entity Account as a Specified Person, the account will be a Reportable Account and the Financial Institution must obtain a self-certification.

## **16.8. Identification of an entity as a Non-Financial Foreign Entity (NFFE)**

If on the basis of a self-certification the holder of a New Entity Account is established as a Passive NFFE, the Financial Institution must identify the Controlling Persons of the entity as determined under AML/KYC procedures.

To determine whether the Controlling Persons of a Passive NFFE are Specified Persons the Reporting Financial Institution must obtain a self-certification from the account holder or Controlling Person.

If they are Specified Persons, the account shall be treated as a Reportable Account.

## **17. REPORTING OBLIGATIONS**

Once a Financial Institution has identified Reportable Accounts then it must report certain information regarding those accounts to the Exchange of Information Unit in accordance with the timetable in Section 16.5.

Separate reports are required to be submitted to the Exchange of Information Unit in respect of US and UK Reportable Accounts.

### **17.1. Information required**

#### ***17.1.1. Specified Persons and Controlling Persons of certain Entity Accounts***

In relation to each Specified Person that is the holder of a Reportable Account and in relation to each Controlling Person of certain Entity Accounts (i.e. a Passive NFFE) who is a Specified Person, the information to be reported is:

- (a) Name
- (b) Address
- (c) Tax Identification Number (TIN) (for Specified US Persons, where available)
- (d) Date of birth and National Insurance Number (for Specified UK Persons, where available)
- (e) The account number or functional equivalent
- (f) The name and Global Intermediary Identification Number of the Reporting Turks & Caicos Islands Financial Institution.
- (g) The account balance or value as of the end of the calendar year or other appropriate period (including, in the case of a Cash Value Insurance Contract or Annuity Contract, the Cash Value or surrender value). Or if the account was closed during the year, immediately before the account was closed.

In relation to f) for the UK Agreement only, where the Reporting TCI Financial Institution does not have a GIIN, it should report a local reference instead. A local reference will be provided by the Exchange of Information Unit.

#### **Account number or functional equivalent**

If the Reportable Account has a unique identifying number or code then this should be reported. This will include identifiers such as Bank Account Numbers and Policy numbers for insurance contracts as well as other non-traditional unique identifiers. The unique identifier should be sufficient to enable the Financial Institution to identify that Reportable Account in future.

If the Reportable Account does not have a unique identifying number or code then any functional equivalent should be reported. This may include non-unique identifiers that relate to a class of interests. A non-unique identifier should be sufficient to enable the Financial Institution to identify the Reportable Account held by the named account holder in future.

Exceptionally, if the Reportable Account does not have any form of identifying number or code then a description sufficient for the Financial Institution to identify the Reportable Account held by the named account holder in future should be reported.

#### ***17.1.2. Custodial Accounts***

In addition to a) to g) above, where the account is a Custodial Account the following information is also required in relation to the calendar year or other appropriate reporting period:

- (h) The total gross amount of interest paid or credited to the account;
- (i) The total gross amount of dividends paid or credited to the account;
- (j) The total gross amount of other income paid or credited to the account; and
- (k) The total gross proceeds from the sale or redemption of property paid or credited to the account.

Items h) to j) are only required to be reported in respect of Reporting Year 2015 onwards. Item k) is required to be reported in respect of Reporting Year 2016 onwards.

#### ***17.1.3. Depository Accounts***

In addition to a) to g) above, where the account is a Depository Account the following information is also required:

- (l) The total amount of gross interest paid or credited to the account in the calendar year or other appropriate period, in respect only of Reporting Year 2015 onwards.

#### ***17.1.4. Cash Value Insurance Contracts***

In addition to a) to f) above and if the account is still in existence at the end of the year the following information must be reported each year from Reporting Year 2015 onwards:

- a) the annual amount reported to the policyholder as the "surrender value" of the account;  
or
- b) the amount calculated by the Specified Insurance Company as at 31 December; and
- c) any part surrenders taken throughout the policy year.

#### ***17.1.5. Purchased Life Annuities (PLAs)***

As TCI Purchased Life Annuities do not have a cash/surrender value, there is no account balance to report. A Specified Insurance Company will only be required to report the amount paid out or credited to the policy holder.

### ***17.1.6. Deferred Annuities***

In the TCI, deferred annuities have two stages:

- The accumulation phase where the product is similar to a Cash Value Insurance Contract and should be treated as such for reporting as set out above.
- The pay-out phase where the annuity becomes a PLA and should be treated as such for reporting as set out above.

When a deferred annuity is ending its accumulation phase, some contracts provide the option for the account holder to take the surrender value of contract, instead of converting the account into a PLA; this is the amount that should be reported.

### ***17.1.7. Other Accounts***

For accounts other than Custodial or Depository Accounts, in addition to a) to g) above, for other accounts the following information is also required in respect of Reporting Year 2015 onwards:

- a) The total gross amount paid or credited to the account including the aggregate amount of any redemption payments made to the account holder during the calendar year or other appropriate reporting period.

### ***17.1.8. Account closures and transfers***

In addition to 16.1 a) to f) above, in the case of a Depository or Custodial Account closed or transferred in its entirety by an account holder during a calendar year the payments made with respect to the account shall be:

- a) The payments and income paid or credited to the account that are described earlier in this Section for Custodial, Depository and Other Accounts.
- b) The amount or value withdrawn or transferred from the account in connection with the closure or transfer of the account.

In the case of a Cash Value Insurance Contract that has been fully surrendered during the calendar year the Specified Insurance Company will need to report the total amount paid out to the account holder or nominated person at the close of the account. This will include any amount of interest following maturity where the amount is awaiting payment.

In the case of a Purchased Life Annuity, if the annuitant has died or the term has ended, the Specified Insurance Company will have no further reporting requirement if the annuitant died at a time before the annual payment has been made.

## **17.2. Explanation of information required**

### ***17.2.1. Address***

The address to be reported with respect to an account held by a Specified Person is the residence address recorded by the Reporting Financial Institution for the account holder or, if no residence

address is associated with the account holder, the address for the account used for mailing or other purposes by the Reporting Financial Institution.

In the case of Controlling Persons of a Passive NFFE, the address required will be the address of each Controlling Person who is reportable.

### ***17.2.2. Taxpayer Identification Numbers (TINs) – US Agreement***

Where it has been established that an account holder is a US Person a Financial Institution is required to obtain a US TIN in several instances. When referred to, a US TIN means a US Federal Taxpayer Identification Number.

For Pre-existing Individual Accounts that are Reportable Accounts then a US TIN need only be provided if it exists in the records of the Reporting Financial Institution. In the absence of a record of the US TIN, a date of birth should be provided, but again only where it is held by the Reporting Financial Institution.

In line with the Agreement, the Government of the TCI has introduced legislation to require Reporting Financial Institutions to obtain the US TIN for relevant Pre-existing Individual Accounts from the 1 January 2017.

For all New Individual Accounts that are identified as Reportable Accounts from 1 July 2014 onwards, the Reporting Institution must obtain a self-certification from account holders identified as resident in the US that includes a US TIN. This self-certification could be on for example, IRS forms W-9 or on another similar agreed form.

Where for a New Individual Account the proposed account holder fails to provide a US TIN or evidence of non-US status and the account becomes active, the account is to be treated as reportable.

There is no requirement for a Financial Institution to verify that any US TIN provided is correct. A Financial Institution will not be held accountable where information supplied by an individual proves to be inaccurate and the Financial Institution had no reason to know.

### ***17.2.3. Date of Birth and National Insurance Numbers – UK Agreement***

Where it has been established that an account holder is a UK Person a Financial Institution is required to obtain a Date of Birth and National Insurance Number in several instances.

For Pre-existing Individual Accounts that are Reportable Accounts then this information need only be provided if it exists in the records of the Reporting Financial Institution.

In line with the Agreement, the Government of the Turks and Caicos Islands has introduced legislation to require Reporting Financial Institutions to obtain the information for relevant Pre-existing Individual Accounts from 1 January 2017.

For all New Individual Accounts that are identified as Reportable Accounts from 1 July 2014 onwards, the Reporting Institution must obtain a self-certification from account holders identified as resident in the UK that includes this information. In respect of the National Insurance Number this information must be obtained by 1 January 2017.

Where for a New Individual Account the proposed account holder fails to provide the information

and the account becomes active, the account is to be treated as reportable.

There is no requirement for a Financial Institution to verify that any of this information provided is correct. A Financial Institution will not be held accountable where information supplied by an individual proves to be inaccurate and the Financial Institution had no reason to know.

#### ***17.2.4. Account Number***

The account number to be reported with respect to an account is the identifying number assigned to the account or other number that is used to identify the account within the Financial Institution.

#### ***17.2.5. Account balance or value***

The account balance or value of an account may be reported in US dollars or in the currency in which the account is denominated.

For Depository Accounts, the balance or value will be that shown on the 31 December, unless the account is closed prior to that date. For example, a reportable Depository Account the balance or value to be reported will be the balance or value as of the 31 December 2014. This will be reported in 2015.

For other Financial Accounts, the balance or value will either be that shown on 31 December of the year to be reported or where it is not possible to or usual to value an account at 31 December, the normal valuation point for the account that is nearest to 31 December is to be used.

#### ***Example***

When a Specified Insurance Company has chosen to use the anniversary date of a policy for valuation purposes, if for example the policy was opened on 3 June 2013, it will be valued on 2 June 2014. If it exceeds the reporting threshold then it is the 2 June 2014 value that will be reported for the year ending 31 December 2014. This will be reported to the Exchange of Information Unit in 2015.

Where the 31 December falls on a weekend or non-working day, the date to be used is the last working day before the 31 December.

The balance or valuation of a Financial Account is the balance or value calculated by the Financial Institution for purposes of reporting to the account holder.

The balance or value of an Equity Interest is the value calculated by the Financial Institution for the purpose that requires the most frequent determination of value, and the balance or value of a Debt Interest is its principal amount.

The balance or value of the account is not to be reduced by any liabilities or obligations incurred by an account holder with respect to the account or any of the assets held in the account and is not to be reduced by any fees, penalties or other charges for which the account holder may be liable upon terminating, transferring, surrendering, liquidating or withdrawing cash from the account.

### ***17.2.6. Jointly held Financial Accounts***

Where a Financial Asset is jointly held the balance or value to be reported in respect of the Specified Person is the entire balance or value of the account. The entire balance or value will be attributable to each holder of the account. The same applies for the Controlling Persons of NFFEs that jointly hold accounts.

#### ***Example 1***

Where a jointly held Depository Account has a balance or value of \$100,000 and one of the account holders is a Specified Person then the amount to be attributed to that person would be \$100,000.

If both account holders were Specified Persons then each would be attributed the \$100,000 and reports would be made for both.

#### ***Example 2***

Where a Specified Person owns 50% of the shares in a company, the full value of the company is reported as being the Financial Account held by that Specified Person.

### ***17.2.7. Account Closures***

The process for closing accounts will differ between institutions and between different products and accounts. The intention is to capture the amount withdrawn from the account in connection with the closure process, as opposed to the account balance at the point of closure given there is an expectation the balance will be reduced prior to point of closure. For these purposes it is acceptable for the Financial Institution to:

- 1) record the balance or value within five business days of when they receive instructions from the account holder to close the account; **or**
- 2) record the most recent available balance or value that is obtainable following receipt of instructions to close the account, where a Financial Institution is unable to record the balance or value at the time of receiving instructions to close the account. This may include a balance or value that predates the instructions to close the account if this is the balance or value that is the most readily available.

### **17.3. Nil returns**

Returns will not be required by TCI Financial Institutions if there are no Reportable Accounts.

### **17.4. Multiple Financial Institutions – duplicate reporting**

It is likely that a number of unconnected Financial Institutions could have a reporting obligation in respect of the same account which could result in duplicate reporting. Each Financial Institution has an obligation to report all Reportable Financial Accounts **unless** it has actual knowledge that the account is being reported by another Financial Institution, whether that Financial Institution is a TCI Financial Institution or not. For this purpose, the TCI Financial Institution has actual knowledge where they hold written confirmation from the Reporting Financial Institution in the other jurisdiction that the Financial Account has been reported for FATCA purposes or under an

agreement equivalent to the UK Agreement.

There is no need for the TCI Institution in this case to report anything to the Exchange of Information Unit in respect of that Financial Account. This does not remove the responsibility for the TCI Financial Institution to ensure that a report has been made and so should it be determined that no report has been made by any Reporting Financial Institution in respect of a Financial Account that is a Reportable Account, penalties may be imposed by the Exchange of Information Unit.

### 17.5. Timetable for reporting

#### US Agreement

<b>Reporting Year</b>	<b>In respect of</b>	<b>Information to be reported</b>	<b>Reporting date to International Tax Authority</b>
<b>2014</b>	Each Specified US Person either holding a Reportable Account  <b>Or</b> as a Controlling Person of an Entity Account	(i) Name (ii) Address (iii)US TIN (where applicable or DOB for Pre-existing Accounts) (iv)Account number or functional equivalent (v) Name and identifying number of Reporting Financial Institution (vi)Account balance or value	30 June 2015

<b>2015</b>	as 2014 plus payments to NPMFI (see 17.6)	<p>As 2014 plus:</p> <p><b>Custodial Accounts</b> Total gross amounts of interest, dividends and other income paid or credited to the account</p> <p><b>Depository Accounts</b> Total amount of gross interest paid or credited to the account in the calendar year or other reporting period</p> <p><b>Cash Value Insurance contracts</b></p> <p>i) Surrender value; or  ii) Amount calculated by the Specified Insurance Company; and  iii) Any part surrenders.</p> <p><b>All other accounts</b></p> <p>The total gross amount paid or credited to the account including the aggregate amount of any redemption payments.</p>	31 May 2016
<b>2016</b>	As 2015	<p>as 2015 plus:</p> <p><b>Custodial Accounts</b></p> <p>Total gross proceeds from the sale or redemption of property paid or credited to the account</p>	31 May 2017
<b>2017 onwards</b>	As 2014	All of the above	31 May following the end of the reporting year

## UK Agreement – Full reporting

Reporting Year	In respect of	Information to be reported	Reporting date to International Tax Authority
2014	<p>Each Specified UK Person either holding a Reportable Account</p> <p><b>Or</b></p> <p>as a Controlling Person of an Entity Account</p>	<ul style="list-style-type: none"> <li>(i) Name</li> <li>(ii) Address</li> <li>(iii) Date of birth and National Insurance number (where applicable for Pre-existing Accounts)</li> <li>(iv) Account number or functional equivalent</li> <li>(v) Name and identifying number (GIIN or local tax identification number) of Reporting Financial Institution</li> <li>(vi) Account balance or value</li> </ul>	31 May 2016
2015	as 2014	<p>As 2014 plus:</p> <p><b>Custodial Accounts</b></p> <p>Total gross amounts of interest, dividends and other income paid or credited to the account</p> <p><b>Depository Accounts</b></p> <p>Total amount of gross interest paid or credited to the account in the calendar year or other reporting period</p> <p><b>Cash Value Insurance contracts</b></p> <ul style="list-style-type: none"> <li>(i) Surrender value; or</li> <li>(ii) Amount calculated by the Specified Insurance Company; and</li> <li>(iii) Any part surrenders.</li> </ul> <p><b>All other accounts</b></p> <p>The total gross amount paid or credited to the account including the aggregate amount of any redemption payments.</p>	31 May 2016

<b>2016</b>	as 2014	as 2015 plus:  <b>Custodial Accounts</b>  Total gross proceeds from the sale or redemption of property paid or credited to the account	31 May 2017
<b>2017 onwards</b>	as 2014	All of the above	31 May following the end of the reporting year

## UK Agreement - Annex IV Alternative Reporting Regime

See Appendix 3, section 1

### 17.6. Reporting on Non-Participating Financial Institutions – US Agreement only

Where a Reporting Financial Institution makes payments to a Non- Participating Financial Institution (NPMI), under the Agreements it is required to report the name and the aggregate value of payments made to each NPMI for the years 2015 and 2016.

This obligation was included as a temporary solution to the requirement to withhold on foreign pass-through payments’ which is included in the US provisions.

Under the Agreement, a TCI Financial Institution, providing that it complies with its due diligence and reporting obligations, is not subject to withholding.

Whether or not this reporting requirement continues will need to be considered alongside any discussion on the longer term solution that delivers the underlying policy objectives of pass thru payments, but which removes the legal problems for Financial Institutions outside the US.

The payments that are to be reported are:

- a) Non-US source interest paid on a Financial Account held by a NPMI;
- b) Non-US source dividends paid on a shareholding held in a Financial Account held by a NPMI;
- c) Payments to an NPMI (whether or not they are paid in respect of a Financial Account) in connection with a securities lending transaction, sale-repurchase transaction, forward, future, option, swap, or similar transaction which are directly or indirectly contingent upon or determined by reference to, the payment of interest or a dividend from US sources; and
- d) Non-US source payments, to a NPMI, that are the proceeds or benefits of a Cash Value Insurance Contract or Annuity Contract.

### ***17.6.1. Exceptions***

The following do not need to be reported:

Any payments made that are not in respect of a Financial Account held by the Financial Institution:

- a) Any payments made that are not in respect of a Financial Account held by the Financial Institution;
- b) Payments for the following: services (including wages and other forms of employee compensation such as stock options), the use of property, office and equipment leases, software licenses, transportation, freight, gambling winnings, awards, prizes, scholarships, and interest on outstanding accounts payable arising from the acquisition of goods or services;
- c) Payments where the Reporting Financial Institution has only a passive role in the payment process and so, alternatively either no knowledge of the facts that give rise to the payment or no control over the payment or no custody of the property which relates to the payment (e.g. processing a cheque or arranging for the electronic transfer of funds on behalf of one of its customers, or receives payments credited to a customer's account) or does not have custody of property which relates to the payment;
- d) Capital markets payments in c) above that are not directly traceable to a US source;
- e) Payments where the Reporting Turks and Caicos Islands Financial Institution does not hold documentation to identify the payee as a Non-Participating FFI, unless the payee is a prima facie FFI.

### ***17.6.2. Reporting***

- a) A payment will be treated as being made when an amount is paid or credited to an NPFFI.
- b) Only the aggregate amount of payments made to the payee during the calendar year need to be reported.
- c) Where the payments described in c) above, cannot be separately identified as being the equivalent of a U.S. source interest or dividend income then the entire amount of the payment made in relation to that transaction is to be reported.
- d) The amount of income to be aggregated is the net amount of the income payment made, there is no requirement to consider amounts withheld.

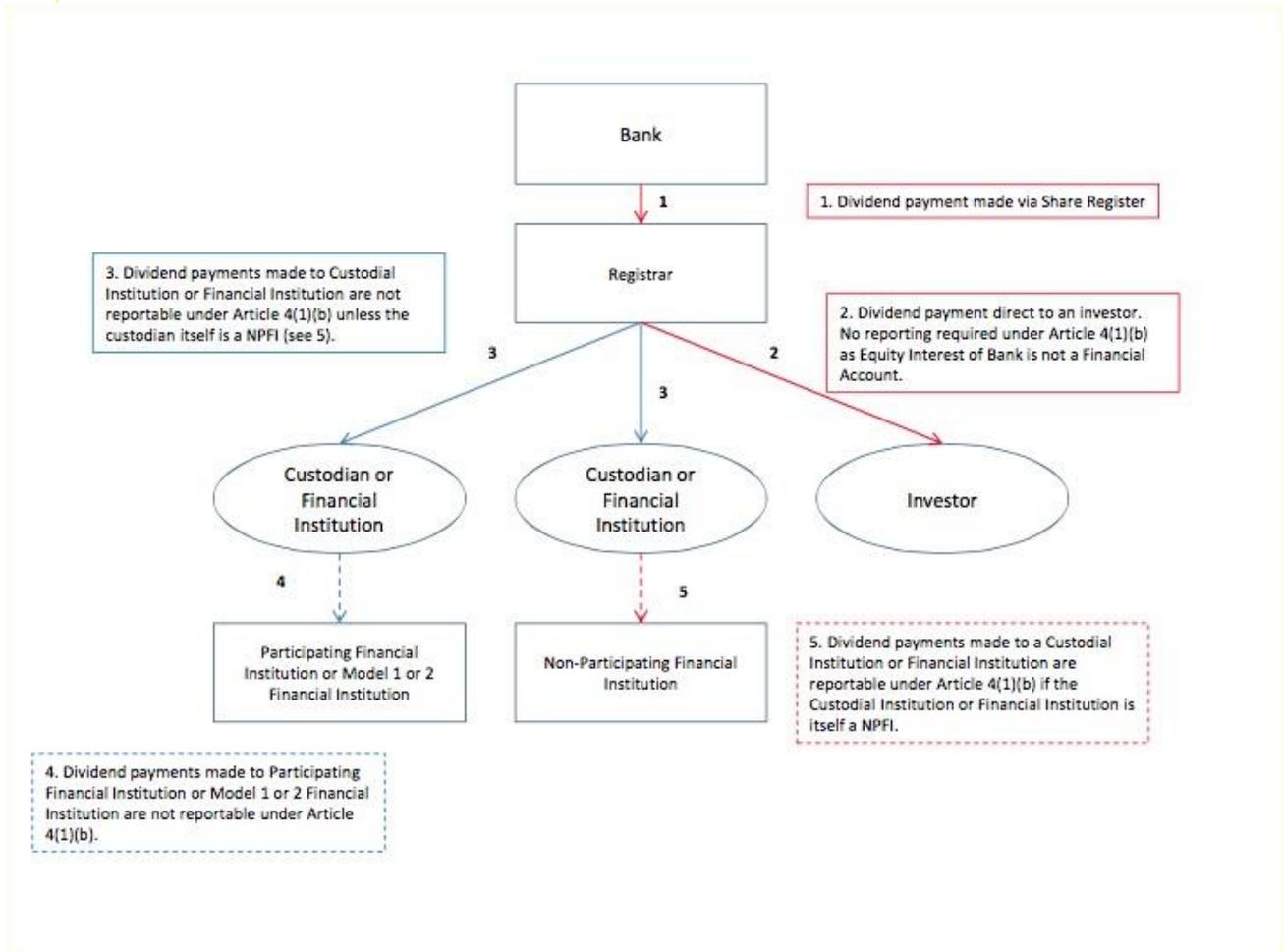
### **17.7. Payments of Dividends made by a Financial Institution**

Dividend payments made by a Financial Institution to its shareholders will only be reportable where the shareholding is held in a Financial Account, for example where the shareholding is held in a Custodial Account of an NPFI.

Shareholdings of a Financial Institution, other than shareholdings or equity interest in certain Investment Entities (See Section [3.4]), are not deemed to be Financial Accounts in their own right

and as such where a payment is made directly to an Investor who is an NPFI, the payment will not be reportable.

The diagram below shows where the reporting for dividend payments will apply:



### **17.8. Withholding on US Source Withholdable Payments paid to Non-Participating Financial Institutions – US Agreement only**

It is not expected that Article 4(1) (d) of the US Agreement will apply to Turks & Caicos Islands Financial Institutions, who should instead fall within the provisions of Article 4(1) (e). This means that TCI Financial Institutions will not have to withhold on US source withholdable payments to a Non-Participating Financial Institution, but they may have to report on such payments to any immediate payor.

### **17.9. Reporting payments of US Source Withholdable Payments paid to Non-Participating Financial Institutions – US Agreement only**

The requirement to report US Source Withholdable Payments to Non-Participating Financial Institutions will fall on Financial Institutions other than those acting as qualifying intermediaries, withholding foreign partnerships or withholding foreign trusts (see Article 4(1)(d)&(e) of the Agreement).

Where such a Financial Institution pays, or acts as an intermediary for the payment of a US Source Withholdable Payment to a Non-Participating Financial Institution, the Financial Institution is required to provide information to the “immediate payor” of that income. The immediate payor is the person with withholding and reporting obligations to the US authorities.

The information that must be provided in respect of the payment is that required for withholding and reporting to occur.

### **17.10. Third party service providers**

Third party service providers can be used by Financial Institutions to undertake the reporting obligations but the responsibility for ensuring that it is complete, correct and timely remains with the Financial Institution.

### **17.11. Format of reporting**

The format in which the reporting will be required will be in accordance with the published reporting Schema issued by the IRS and will also be consistent with the format used by the UK which is being developed with the OECD for the Common Reporting Standards. The reporting format will be mandatory, and reports submitted in any other format will not be accepted.

### **17.12. Transmission to the Exchange of Information Unit**

#### **US Agreement**

Reporting Turks & Caicos Islands Financial Institutions are required to submit information to the Exchange of Information Unit electronically via an IRS web-based application, International Data Exchange Service (IDES).

IDES is a secure managed file transfer service that is available to FIs and HCTAs to facilitate FATCA reporting. This reporting is provided for under U.S. Treasury Regulations, the FFI agreement, Tax Information Exchange Agreements (TIEAs), Intergovernmental Agreements (IGAs), and other guidance issued by the Treasury Department and the IRS. The data collected through IDES will be

incorporated into IRS compliance operations. IDES is accessible to enrolled users over the Internet via Hypertext Transfer Protocol Secure (HTTPS) or Secure File Transfer Protocol (SFTP). IDES provides for an end-to-end controlled file transfer with enhanced monitoring and security features. The system only accepts encrypted electronic submissions, and will allow for the transmission of FATCA reporting in the approved FATCA XML Schema v1.1 (FATCA XML). For more information on FATCA regulations, Form 8966 and instructions, FATCA XML, and other related topics, visit the FATCA Home Page.

The user guide can be found on the following site:

<http://www.irs.gov/pub/fatca/p5190idesuserguide.pdf>

<https://www.ides-support.com/>

### **UK Agreement**

The way in which Financial Institutions will submit the information to the Exchange of Information Unit is still to be finalized.

### **17.13. Penalties**

Penalties for failure to comply with the reporting obligations are set out in the TCI Legislation

## **18. COMPLIANCE**

### **18.1. Minor errors**

In the event that the information reported is corrupted or incomplete, the recipient country will notify the Exchange of Information Unit.

The Exchange of Information Unit will contact the Reporting TCI Financial Institution to resolve the problem. Examples of minor errors could include:

- a) Data fields missing or incomplete;
- b) Data that has been corrupted;
- c) Use of an incompatible format.

Where this leads to the information having to be resubmitted this will be via the Exchange of Information Unit.

Penalties may be imposed by the Exchange of Information Unit if the error is considered to contravene the TCI Legislation.

### **18.2. Significant non compliance**

Significant non-compliance may be determined by any of the IRS (in respect of the US Agreement), HMRC (in respect of the UK Agreement) or the Exchange of Information Unit. In any event the relevant Competent Authorities will notify the other regarding the circumstances.

Where one Competent Authority notifies the other of significant non-compliance there is an 18 month period in which the Financial Institution must resolve the non-compliance.

Where the Exchange of Information Unit is notified of or identifies significant non-compliance by a Reporting TCI Financial Institution, the Exchange of Information Unit will apply any relevant penalties under the Legislation.

The Exchange of Information Unit will also engage with the Reporting Turks and Caicos Islands Financial Institution to:

- a) discuss the areas of non-compliance;
- b) discuss remedies/solution to prevent future non-compliance;
- c) agree measures and a timetable to resolve its significant non-compliance.

The Exchange of Information Unit will inform the Competent Authority of the other party of the outcome of these discussions.

The following are examples of what would be regarded as significant non-compliance include:

- Repeated failure to file a return or repeated late filing;
- Ongoing or repeated failure to register, supply accurate information or establish appropriate governance or due diligence processes;

- The intentional provision of substantially incorrect information;
- The deliberate or negligent omission of required information.

In the event that the issues remain unresolved after a period of 18 months then the Reporting TCI Financial Institution will be treated as a Non-Participating Financial Institution under the US Agreement. Details of how such an entity can correct its status will be published at later date. There is no equivalent sanction under the UK Agreement but penalties could be imposed by the Exchange of Information Unit under the TCI Legislation.

## **19. PREVENTION OF AVOIDANCE**

The Government of the TCI Legislation include an anti-avoidance measure which is aimed at arrangements taken by any person to avoid the obligations placed upon them by the Regulations.

It is intended that 'arrangements' will be interpreted widely and the effect of the rule is that the Regulations will apply, as if the arrangements had not been entered into.

## APPENDIX 1

### AGREEMENTS IN FORCE (TO BE UPDATED)

<b>Jurisdiction</b>	<b>Date of entry into force</b>	<b>Implementing regulations</b>	<b>Link to Agreement</b>
United States of America	30th January 2015	Tax Information (Exchange and Mutual Administrative Assistance) (Turks and Caicos Islands and United States of America Agreement to Improve International Tax Compliance) Order 2015	[add link]
United Kingdom	7th February, 2014	Tax Information (Exchange and Mutual Administrative Assistance) (United Kingdom and Turks and Caicos Islands Agreement to Improve International Tax Compliance) Order 2014)	[add link]

## APPENDIX 2

### DEFINITIONS

**Annex I** means the first annex of each of the UK IGA and the US FATCA, which contains the provisions governing the due diligence obligations for identifying and reporting on U.K. Reportable Accounts and U.S. Reportable Accounts (as applicable) and on payments to certain non-participating Financial Institutions.

**Annex II** means the second annex of each of the UK IGA and the US IGA which, in the case of the UK IGA contains provisions classifying Non-Reporting TCI Financial Institutions and Exempt Products and non-Reportable United Kingdom Entities; and in the case of the US IGA, provisions classifying Exempt Beneficial Owners, Deemed Compliant Financial Institutions and Excluded Financial Accounts.

**Entity** or **entity** means a legal person or a legal arrangement such as a trust.

**EIOU** means the Exchange of Information Unit

**FATCA** means the Foreign Account Tax Compliance Act, 2010 of the United States of America (**USA**). FATCA was introduced as part of the HIRE Act of the USA with the purpose of reducing tax evasion by their citizens. FATCA requires financial institutions outside the US to report information on financial accounts held by their US customers to the Internal Revenue Service (IRS). The information to be reported by foreign financial institutions is equivalent in substance to that required to be reported by US citizens in their US tax returns.

**FSC** means the Financial Services Commission established under the Financial Services Commission Ordinance to provide for the functions and powers of the Commission and to provide for the supervision and regulation by the Commission of the Financial Services Business.

**GIIN** means Global Intermediary Identification Number.

**IDLO** means the Investment Dealers (Licensing) Ordinance which makes provisions for the licensing of Investment Dealers.

**IGA** means the Inter-Governmental Agreement entered into between the Turks & Caicos Islands Government and the Government of the United States of America (**US IGA**) and/or the Turks & Caicos Islands Government and the Government of the United Kingdom of Great Britain and Northern Ireland (**UK IGA** and together with the US IGA, the **IGAs**).

**IRS** means the U.S. Internal Revenue Service.

**MFO** means the Mutual Funds Ordinance which makes provisions for the licensing and regulation of mutual fund administrators and managers.

**Reporting Turks & Caicos Islands Financial Institution** means any Turks & Caicos Islands Financial Institution that is not a Non-Reporting Turks & Caicos Islands Financial Institution.

***U.S. Person*** means a U.S. citizen or resident individual, a partnership or corporation or any State thereof, a trust if (i) a court within the USA would have authority under applicable law to render orders or judgments concerning substantially all issues regarding administration of the trust, and (ii) one or more U.S. persons have the authority to control all substantial decisions of the trust, or an estate of a decedent that is a citizen or resident of the United States. This term will be interpreted in accordance with the U.S. Internal Revenue Code.

## APPENDIX 3

### UK AGREEMENT – SPECIFIC ELEMENTS

#### 1. Annex IV – Alternative Reporting Regime for UK Resident Non-Domiciled Individuals

##### *A. General*

Annex IV to the UK Agreement includes provisions for the Alternative Reporting Regime (ARR). This ARR applies only to UK Resident Non-Domiciled (RND) individuals that have claimed the remittance basis of tax under Part 14 Chapter A1 Income Tax Act 2007.

The ARR is elective by both the Reporting Government of the Turks and Caicos Islands Financial Institution and the RND. In the absence of an election by both parties (see paragraph B below), and self-certification by the RND (see paragraph C below) the full reporting under the UK Agreement applies.

If the Reporting Turks and Caicos Islands Financial Institution and RND have elected for the ARR to apply, and the self-certification has been completed by the RND, the ARR must be applied to all UK Reportable Accounts held with that Reporting Turks and Caicos Islands Financial Institution by that RND, whether directly or indirectly through an entity of which the RND is a Controlling Person.

##### *B. Elections*

In order for the ARR to apply, two elections need to be made.

##### *1. Reporting Turks and Caicos Islands Financial Institution*

The Reporting Turks and Caicos Islands Financial Institution must submit an election to the Exchange of Information Unit confirming that it is offering the ARR to its RND clients. The election must be made by 30 May following the end of the first Relevant Tax Year in respect of which it offers the ARR. The election will remain valid until it is revoked by the Reporting Turks and Caicos Islands Financial Institution.

##### *2. RND*

The RND must submit an election to the Reporting Turks and Caicos Islands Financial Institution that will be reporting in respect of Financial Accounts held by the RND and maintained by that Reporting Turks and Caicos Islands Financial Institution. The election must be made annually and by 30 May following the end of the Relevant Tax Year.

The Reporting Turks and Caicos Islands Financial Institution may determine that the election should be made by an earlier date provided they notify their client in advance (e.g. when they notify the client that they can offer the ARR). This might be preferable if the Financial Institution cannot obtain electronically all of the information required to be reported under the full reporting or ARR and has to collate it through manual file searches, for example.

The format of the election can be determined by the Reporting Turks & Caicos Islands Financial Institution.

### ***C. Self-certification***

The RND electing for the ARR to apply to his accounts must provide written and signed confirmation of the following to the Reporting Turks and Caicos Islands Financial Institution by 28 February following the end of the Relevant Tax Year:

- that the RND's UK tax return for the Relevant Tax Year:
  - contains a claim or statement that the RND is not domiciled anywhere in the UK;
  - includes a claim to be taxed under the remittance basis under Part 14 Chapter A1 Income Tax Act 2007 and, if appropriate, the tax chargeable under section 809H Income Tax Act 2007 has been paid, or any such equivalent sections in any successor legislation; and
- to the best of their knowledge, the domicile status and claim to be taxed on the remittance basis is not being formally disputed by the UK Competent Authority.

The format of the self-certification can be determined by the Reporting Turks and Caicos Islands Financial Institution but must be in writing and signed by the Specified Person. The document must be retained by the Reporting Turks and Caicos Islands Financial Institution for a period of 6 years following the end of the Relevant Tax Year.

### ***D. Information to be provided***

The following information should be provided in respect of the Relevant Reporting Period instead of the information to be provided under Article 2 of the UK Agreement.

- Name, address, date of birth and National Insurance Number;
- In the case of date of birth and National Insurance Number, this information is only reported where it is available. As set out in [13.1] this information should be obtained for all new accounts established after 1 July 2014. In respect of accounts that exist at 30 June 2014, Reporting Turks and Caicos Islands Financial Institutions should have in place mechanisms to obtain this information by 1 January 2017 so that this information can be included in reporting for the Relevant Tax Year ended 5 April 2018;
- In the case of an account holder being an entity that is identified as having one or more Controlling Persons that is a RND, the name and address of the entity must also be reported in addition to the information above in respect of the RND Controlling Persons.
- Instead of income and account balance information that is required to be reported under the UK Agreement, the following financial information is to be reported in respect of the Relevant Tax Year:
  - Gross Payments and Movements of Assets from an originating UK source into the UK Reportable Account;

- Gross Payments and Movements of Assets from an originating source territory or jurisdiction that cannot be determined;
- 
- Gross Payments from the UK Reportable Account to an ultimate UK destination; and
- Gross Payments from the UK Reportable Account to an ultimate territory or jurisdiction that cannot be determined.
- Where gross payments and movements of assets have been made during the Relevant Tax Year, the Financial Institution must also report the following:
  - The account number, or functional equivalent;
  - The name of the Reporting Turks and Caicos Islands Financial Institution and, where available, the Global Intermediary Identification Number (obtained if the Reporting Turks and Caicos Islands Financial Institution registers with the IRS under the US Agreement). Where the Reporting Turks and Caicos Islands Financial Institution does not have a GIIN, it should report its Turks and Caicos Islands tax identification number.

***E. Ultimate destination and originating source***

The use of the words ‘ultimate’ and ‘originating’ was to deal with the situation where payments were made via UK clearing institutions. It is not intended that the Reporting Government of the Turks and Caicos Islands Financial Institution has to trace the funds or assets through every possible future or previous location.

If a payment is made or an asset is moved directly from the UK Reportable Account to a UK account it should be assumed that the UK is the ultimate destination and so the transaction is reportable, unless there is evidence that the payment or asset is destined for another identifiable jurisdiction.

Evidence in this case for example would be assumed if the Reporting Turks and Caicos Islands Financial Institution has instructions to transfer the funds or assets from a Turks and Caicos Islands account to an account in France but the funds are transferred via a UK clearing account.

If a payment is made or an asset is moved from the UK Reportable Account to an account in another jurisdiction, and that jurisdiction is identifiable (which would be expected to be the case), then the transaction is not reportable, unless there is evidence that the payment or asset is destined for the UK. The Reporting Turks and Caicos Islands Financial Institution is not required to enquire with the Specified UK Person as to whether the funds will be transferred elsewhere.

Evidence in this case for example would be assumed if the Reporting Turks and Caicos Islands Financial Institution has instructions to transfer the funds from a Turks and Caicos Islands account to an account in France and then from the French account to an account in the UK. This would be treated as being a transfer to an ultimate UK destination.

#### ***F. ARR reporting periods***

The reporting period for the ARR is aligned with the UK tax year and is referred to as the Relevant Tax Year in the Agreement.

The first reporting period for ARR is for 2014 and covers the period from 30 June 2014 to 5 April 2015. This information must be reported to the Exchange of Information Unit by 30 June 2016 for onward submission to HMRC by 30 September 2016.

The reporting period for 2015 covers the period from 6 April 2015 to 5 April 2016 and must be reported to the Exchange of Information Unit by 30 June 2017 for onward submission to HMRC by 30 September 2017. In all subsequent years, the reporting follows this pattern.

If a RND elects for ARR to apply but does not complete the self-certification process, the Reporting Turks and Caicos Islands Financial Institution must report the information set out in Article 2 of the UK Agreement. This will necessarily result in a 12 month delay in the information being reported.

For example, taking the reporting period for 2016 (6 April 2016 to 5 April 2017), the RND will have elected for ARR to apply by [30 May] 2017. The self-certification by the RND is needed by 28 February 2018. If the self-certification is not provided, the Reporting Turks and Caicos Islands Financial Institution must report to the Exchange of Information Unit by [30 June 2018] the income, gains and account balances as set out in Article 2 for the 2016 calendar year in respect of the accounts held by that RND so that this can be reported to HMRC by 30 September 2018.

#### ***G. Additional reporting for Reporting Turks & Caicos Islands Financial Institutions***

For each year for all clients who have elected for the ARR to apply, regardless of whether the RND has provided the self-certification, the Reporting Turks and Caicos Islands Financial Institution must provide the following information to the Exchange of Information Unit by 30 June following the end of the Relevant Tax Year:

- Name, address and, where available, the date of birth and National Insurance Number.

Therefore, for all RNDs who have made the election in respect of the tax year ended 5 April 2017, a list of those persons must be sent to the Exchange of Information Unit by 30 June 2017 so that it can be submitted to HMRC by 30 September 2017 in accordance with paragraph E.1. of Annex IV. It is recognized that this might result in some duplicate reporting when the Gross payment and Movement of Assets is reported in respect of the same period 12 months later.

**Summary timetable for ARR elections and self-certification**

<b>Reporting period</b>	<b>Period covered</b>	<b>Election/self-certification made by:</b>	<b>Election made to:</b>	<b>Deadline for making election</b>
<b>2015</b>	5 April 2015 to 6 April 2016	i) Reporting Turks and Caicos Islands Financial Institution - election  ii) RND – election  iii) RND – self-certification	i) Exchange of Information Unit  ii) Reporting Turks and Caicos Islands Financial Institution  iii) Reporting Turks and Caicos Islands Financial Institution	i) 31 May 2015  ii) 31 May 2015  iii) 28 February 2016
<b>2016</b>	6 April 2016 to 5 April 2017	i) Reporting Turks and Caicos Islands Financial Institution - election  ii) RND – election  iii) RND – self-certification	i) Exchange of Information Unit  ii) Reporting Turks and Caicos Islands Financial Institution  iii) Reporting Turks and Caicos Islands Financial Institution	i) 15 May 2017  ii) 15 May 2017  iii) 28 February 2017
<b>2017</b>	Same pattern as 2016	Same pattern as 2016	Same pattern as 2016	Same pattern as 2016

## Summary timetable for ARR reporting

Reporting period	In respect of:	Information to be reported	Period covered	Reporting date to of Exchange Information Unit
2014	i) Each Specified UK Person who has elected for the ARR to apply	i) Name, address, DOB and NI Number  <b>and if no self-certification made</b>  full reporting as set out in [19.5]	i) 30 June 2014 to 5 April 2015  1 January 2014 to 31 December 2014	31 May 2016  31 May 2016
	ii) Each Specified UK Person who has elected for the ARR to apply and has completed the self-certification process	ii) Name, address, DOB and NI Number; and  Gross Payments and Movements of Assets as set out in paragraph D	ii) 30 June 2014 to 5 April 2015	31 May 2016
2015	As for 2014	i) Name, address, DOB and NI Number  <b>and if no</b>	i) 6 April 2015 to 5 April 2016	31 May 2016

		<p><b>self-certification made</b></p> <p>full reporting as set out in [19.5]</p> <p>ii) Name, address, DOB and NI Number; and</p> <p>Gross Payments and Movements of Assets as set out in paragraph D</p>	<p>1 January 2015 to 31 December 2015</p> <p>ii) 6 April 2015 to 5 April 2016</p>	<p>31 May 2017</p> <p>31 May 2017</p>
<b>2016</b>	As for 2014	<p>i) Name, address, DOB and NI Number</p> <p><b>and if no self-certification made</b></p> <p>full reporting as set out in [19.5]</p> <p>ii) Name, address, DOB and NI Number; and</p> <p>Gross Payments and Movements of Assets as set out in paragraph D</p>	<p>i) 6 April 2016 to 5 April 2017</p> <p>1 January 2016 to 31 December 2016</p> <p>ii) 6 April 2016 to 5 April 2017</p>	<p>31 May 2017</p> <p>31 May 2018</p> <p>31 May 2018</p>
<b>2017 onwards</b>	As for 2014	<p>i) Name, address, DOB and NI Number</p> <p><b>and if no self-certification made</b></p> <p>full reporting as set out in [19.5]</p>	<p>Following the same pattern as 2016</p>	<p>Following the same pattern as 2016</p>

		ii) Name, address, DOB and NI Number; and  Gross Payments and Movements of Assets as set out in paragraph D		
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**H. Trusts**

The interest in a trust is the Financial Account which, if the settlor, beneficiary or person with ultimate effective control is a Specified UK Person, is the UK Reportable Account. This remains the case where that Specified Person is a UK Resident Non-Domiciled person.

The Reporting Turks and Caicos Islands Financial Institution, which in the case of a professionally managed trust is the trustee, has to report Gross Payments and Movement of Assets from a UK source or from an undeterminable jurisdiction to the UK Reportable Account, i.e. the trust. The Reporting Turks and Caicos Islands Financial Institution also has to report Gross Payments from the UK Reportable Account, i.e. the trust, to a UK destination or destination in an undetermined jurisdiction.

No disclosure is required in respect of interest or other income arising in the trust.