Towards the industrialization of regulatory reporting

For financial players, fiscal transparency means communicating a growing volume of information to the relevant tax authorities. The implementation of the different sets of regulations against tax evasion at international level has changed customer expectations towards their financial institutions, particularly when it comes to the role the financial institutions can play in drawing up their tax returns. A challenge or an opportunity to develop new services complying with the changing regulatory requirements?

One observation is unambiguous: more than 8500 financial institutions registered in Luxembourg have made a FATCA declaration to the Inland Revenue Department in 2015. In line with the measures imposed by the United States with the entry into force of FATCA, from this year onwards the financial center has to declare all customers who are "US Persons" and who have an account outside the United States.

The scope of data to be reported under FATCA will increase in 2016 and 2017, in parallel with the implementation of the automatic exchange of non-U.S. information. The first agreements between partner states will enter into force in a few weeks and will be implemented on the basis of the so-called 'DAC2' Directive, with initial reporting in 2017 (for 2016), listing all customers of Luxembourg financial institutions who are considered to be tax residents in an EU Member State other than Luxembourg. Similar agreements between the EU (and some Member States) and other participating jurisdictions will come into effect from 2017, and agreements between the EU and Switzerland and Liechtenstein have already been signed.

Given this mounting pressure and the need to leverage increasingly large amounts of human and IT resources, the concept of the industrialization of regulatory reporting makes perfect sense.

Pascal Eber, Partner at Deloitte Luxembourg, says "*Regulatory reporting is a real cost center for the Luxembourg financial center. The time, the expertise and investment dedicated to these new requirements highlight the need to rethink operational models for producing these declarations. Outsourcing these activities allows the pooling of technical infrastructure and skills as well as the extension of the range of reports produced from a single set of customer data. Financial institutions are looking to offset these new operational costs through revenues from innovative services, including services that enable their customers to better understand their specific tax situation.*"

"*In conjunction with our subsidiary in Zurich (Deloitte Tax Reporting Services AG), we are now able to allow financial institutions in Luxembourg, France, Switzerland and Monaco to benefit from complete packages which enable their customers to receive detailed, reliable fiscal reports while strengthening the range of services offered by the institutions. In this way, financial players can significantly absorb the costs of regulatory reporting,*" Pascal Eber continues.

The services offered by Deloitte allow financial institutions to reduce their operational burden, which—when it comes to FATCA reporting and automatic exchange of information—is particularly heavy at the beginning of each year. "*Our ability to manage activity peaks combined with our expertise in providing regulatory intelligence is a real added value for all of our customers. One of the priorities for financial institutions is to reduce their internal costs and our business case is part of this approach,*" concludes Pascal Eber.

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