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TaxNewsFlash

Canada

FIs — Review Updated CRS Guidance

January 21, 2026
No. 2026-05

Financial institutions (FIs) should review updated CRA guidance for due diligence and information reporting obligations under the Common Reporting Standard (CRS). In this update, which was released on December 19, 2025, the CRA clarifies the obligations of fund managers and dealers, expands its guidance on the due diligence and reporting obligations of fund structures, clarifies the guidance for undocumented accounts, and expands the circumstances under which a partnership may be considered a Canadian resident for CRS purposes, among other changes. Note that, despite this new update, the CRA has not currently updated its Foreign Account Tax Compliance Act (FATCA) guidance. As a result, new CRS guidance may differ from existing FATCA requirements.

FIs should consider how CRA's updated guidance may affect their existing CRS and FATCA processes, and where additional consideration may be needed to harmonize the two regimes. Written policies and procedures should be updated for any operational changes as a result of the new guidance. The CRA has stated that, on audit, they will request a copy of an FI's written policies and procedures implementing FATCA and the CRS.

Background
Under Canada's FATCA and CRS regimes, affected FIs are generally required to identify accounts held by tax residents of jurisdictions outside of Canada (including persons with dual or multiple tax residency) and report specific information relating to these accounts directly to the CRA each year. This information can include account balances and certain amounts paid or credited to the account, including interest, dividends, and proceeds from the sale of financial assets.

Canadian CRS legislation is enacted in Part XIX of the *Income Tax Act.*

Fund managers

The updated guidance provides new clarity for investment funds that rely on documentation collected by fund managers acting as their agent. Specifically, the CRA now states that, while documentation can be used in relation to more than one financial account, if the financial accounts were not open on the same day, the FI must obtain a new self-certification, or must verify and document that the account holder's information continues to be accurate and reasonable in accordance with the CRS rules.

KPMG observations
FIs that fail to obtain a valid CRS self-certification when required, such as at the time of new account opening, may be subject to a penalty of up to $2,500 per account. Similar penalties could apply under FATCA.

The CRA also expands the guidance for fund managers who report on behalf of a "family of funds". The CRA states that, in this case, the fund manager must identify, in the information returns, each underlying fund where each reportable account is maintained. As a result, the fund manager may have to file multiple Part XIX information returns.

KPMG observations
Fund managers should review their CRS due diligence and reporting processes when they act on behalf of investment funds. In particular, the updated guidance may require fund managers to implement additional due diligence and reporting procedures.

Furthermore, investment funds should be aware that even where due diligence and reporting procedures are delegated to a fund manager, the funds remain responsible for ensuring CRS compliance. Investment funds should therefore confirm the procedures that their fund managers are performing on their behalf, clarify which party will be held liable for any gaps, and document how the funds are complying with their CRS obligations.

Investment funds and dealers

The CRA's updated guidance clarifies the obligations for investment funds and investment fund dealers when dealing with nominee name and client name accounts.

Holdings in nominee name

The CRA clarifies that, for accounts held in nominee name, the fund must verify the status of the dealer by obtaining a valid self-certification from the dealer, or by referring to publicly

available information. Where the dealer is verified as a financial institution, the CRA states that the fund is not required to ascertain information or perform reporting in connection with the ultimate investors of accounts held in nominee name by the dealer. Instead, the dealer must perform both due diligence and reporting obligations for the account. The dealer should file the Part XIX information return using the name and Business Number of the dealer.

The CRA's updated guidance clarifies how to apply the aggregation requirements for due diligence. In order for a dealer to aggregate preexisting accounts and determine whether any thresholds are met, the CRA advises that a dealer must consider all the financial accounts it maintains for each client, regardless of whether the client's underlying interests are held in client name or nominee name, or if they are in different funds or in other investments. However, the CRA notes that the fund should complete reporting of each account without considering the aggregation (i.e., an information slip must be filed for each reportable account with a distinct account number or for each underlying fund).

Due diligence relief for client name accounts

The CRA guidance reconfirms the circumstances for when a fund is relieved of the due diligence obligations for client name accounts. A fund may be eligible for this relief where all the following conditions are met:

- The property recorded in the account is also recorded in a financial account ("related account"), maintained by the dealer;
- The dealer is authorized under the relevant provincial legislation to engage in the business of dealing in securities or any other financial instrument, or to provide portfolio management or investment advising services;
- The dealer has advised the financial institution whether the related account is a reportable account; and
- It can not reasonably be concluded by the financial institution that the dealer has failed to comply with its obligations under Part XIX.

If one or more of these criteria are not met, both the dealer and the FI (in this case, the fund) have due diligence obligations for the account.

Reporting relief for client name accounts

The fund and the dealer each have reporting obligations unless CRA administrative relief applies.

Under this administrative relief, the CRA indicates that it will allow the FI (in this case, the fund) to report the account it maintains based on information provided from the dealer. In this case, the dealer is relieved from the reporting obligation, as long as the FI informs the

dealer in writing that the FI will undertake the reporting. In reporting the account, the FI should file the Part XIX information return using the Business Number of the FI.

Alternatively, the CRA's administrative policy allows the dealer to do both the due diligence and reporting obligations for the client name account. In such cases, the dealer must use its own business number and identify the fund as the reporting FI. The dealer must advise the FI in writing which accounts are reportable and that it (the dealer) will be responsible for the reporting.

Note that the CRA's administrative relief does not apply where an FI can reasonably conclude that the other FI has failed to comply with its CRS obligations.

KPMG observations

The CRA's clarifications are a good reminder that, in multiple financial institution arrangements, parties must regularly communicate regarding CRS compliance to be eligible for CRA's administrative relief.

CRS due diligence and reporting responsibilities can be allocated between the parties in various ways. Investment funds and investment dealers that may be eligible for relief from their CRS obligations should ensure that their agreements clearly state how due diligence and reporting responsibilities are allocated. In addition, positions taken should be clearly documented to support why relief applies. Finally, parties should agree on the timing and format of ongoing written communication regarding the results of due diligence and reporting procedures.

Undocumented accounts

The CRA has provided additional guidance regarding the circumstances in which an account may be classified and reported as an "undocumented account". An "undocumented account" is a preexisting account (opened on or before June 30, 2017) held by an individual where the financial institution cannot determine or obtain the individual account holder's tax residency due to specific circumstances, even after following all relevant due diligence procedures.

The CRA also states that new accounts (opened after June 30, 2017) must always have a self-certification obtained and validated prior to account opening and therefore should not be reported as "undocumented".

KPMG observations

We understand that the CRA updated its guidance after receiving a significant number of accounts in annual CRS reports that were misclassified as "undocumented". FIs should review whether accounts that are being reported as "undocumented" should truly be classified as such.

Partnerships as financial institutions

In its updated guidance, the CRA generally widens the scope of the CRS rules to apply to additional partnerships. Under this change, a partnership will now be considered a Canadian-resident partnership for CRS purposes under any of the following circumstances:

- All the partners, including all end members, are resident in Canada;
- The place of effective management and control of a partnership's business is situated in Canada; or
- The partnership was formed under the laws of a province or territory.

KPMG observations
Partnerships should review the updated guidance to understand the conditions for Canadian residency for CRS purposes. As a result of this change, certain partnerships may now have CRS due diligence and reporting obligations in Canada, even if they are subject to CRS obligations in another jurisdiction.

The change may be especially significant in the asset management and investment fund context as many foreign fund managers have used Canadian-formed partnerships to facilitate investments. In such a case, there may now be CRS due diligence and reporting obligations in Canada.

Trusts as financial institutions

The CRA guidance now states that a trust will be considered as resident in Canada for CRS purposes if the majority of its trustees are resident in Canada, provided that evidentiary support demonstrates the exercise of decision-making powers and responsibilities over the trust by the trustees. Previously, the CRA took a wider view and stated that a trust was considered resident in Canada for CRS purposes if one or more of its trustees were resident in Canada.

We can help

Canadian FIs should ensure that their due diligence and reporting procedures comply with the CRS and FATCA rules. Please reach out to your local KPMG tax advisor for additional assistance.