

Foreword

Coming in 2017 - Common Reporting Standard (CRS)



With the CRS and other data exchange regimes such as the Foreign Account Tax Compliance Act (FATCA), FIs face the challenge of complying with each regime. Besides having specialised teams leading the implementation, they should look towards building flexible and robust technology solutions to meet the varied requirements of each regime.

In addition, FIs must keep a close eye on regulatory developments and ensure that they are able to put in place necessary processes and automate solutions that monitor customer data, identify reportable events and respond to authorities' requests for information. This will

significantly increase compliance costs of FIs. However, a holistic approach taking into consideration the experience learnt from implementing FATCA and Anti-Money Laundering processes, will put FIs in good stead in adopting and meeting the requirements of CRS and other data exchange regimes.

In this issue, we highlight the key aspects of CRS and how it will impact FIs in Singapore.

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We will highlight key aspects of CRS and how it will impact FIs in Singapore.



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Global topics

Recent KPMG reports, whitepapers and publications from KPMG around the world of relevance to the financial services sector.



The Common Reporting Standard: What You Need To Know

The introduction of the Common Reporting Standard (CRS) has generated a great deal of buzz in global financial circles since it was first introduced in 2014. In this issue, we will highlight key aspects of the CRS.

By: Gary Chia

What is CRS?

The CRS is an information standard for the automatic exchange of information (AEOI), developed by the Organisation for Economic Co-operation and Development (OECD). CRS allows for tax information on individuals and entities to be automatically exchanged between Participating Jurisdictions.

Why implement CRS?

The idea for CRS was sparked by the successful implementation of the Foreign Account Tax Compliance Act (FATCA) by the United States. FATCA imposes requirements on Financial Institutions (FIs) around the world to report the financial information of account holders who are American citizens and residents to the United States' Internal Revenue Service (IRS), and withhold tax for the IRS on behalf of these account holders.

A Way to Combat Tax Evasion

The success of FATCA as a standard for the exchange of information has helped spur the push for a global standard, and raised the possibility of a new tool to combat tax evasion globally. Recent incidents including the release of the Panama Papers in April 2016 have revealed the numerous methods used to hide wealth and income in offshore tax havens from tax authorities. Some of these methods include the use of offshore shell companies or trusts to disguise the ultimate beneficiary/beneficiaries.

In recent years, tax authorities around the world have paid increasingly close attention to the large amounts of undisclosed wealth held in offshore jurisdictions but are hampered by the lack of disclosure on wealth and sources

of income. An opportunity exists for tax authorities to boost tax revenue by collecting tax on such wealth. However, this is only possible if sufficient data can be obtained on such wealth. This is where CRS comes in.

Comparison between FATCA and CRS

Similar to FATCA, CRS sets out requirements for FIs in Participating Jurisdictions to implement due diligence procedures to review Financial Accounts and identify the relevant financial information to be exchanged.

However, CRS is much broader in scope compared with FATCA. The differences are illustrated in the table below.

	FATCA	CRS
Indicia	Focused on solely U.S. citizenship and residency	Focused on tax residency (regardless of nationality)
Withholding Tax	Withholding tax requirements	No withholding tax requirement
Reporting	Primarily to U.S.	Many-to-many, via local authority
De minimis limits	<ul style="list-style-type: none"> • \$50,000 (pre-existing individual accounts) • \$250,000 (pre-existing entity accounts) 	<ul style="list-style-type: none"> • No de minimis limits for pre-existing individual accounts • \$250,000 (pre-existing entity accounts)

How does CRS work?

Under CRS, FIs with reporting obligations are required to review the Financial Accounts of their account holders to identify Reportable Accounts by applying due diligence. FIs are required to report the specified information to the relevant tax authorities.



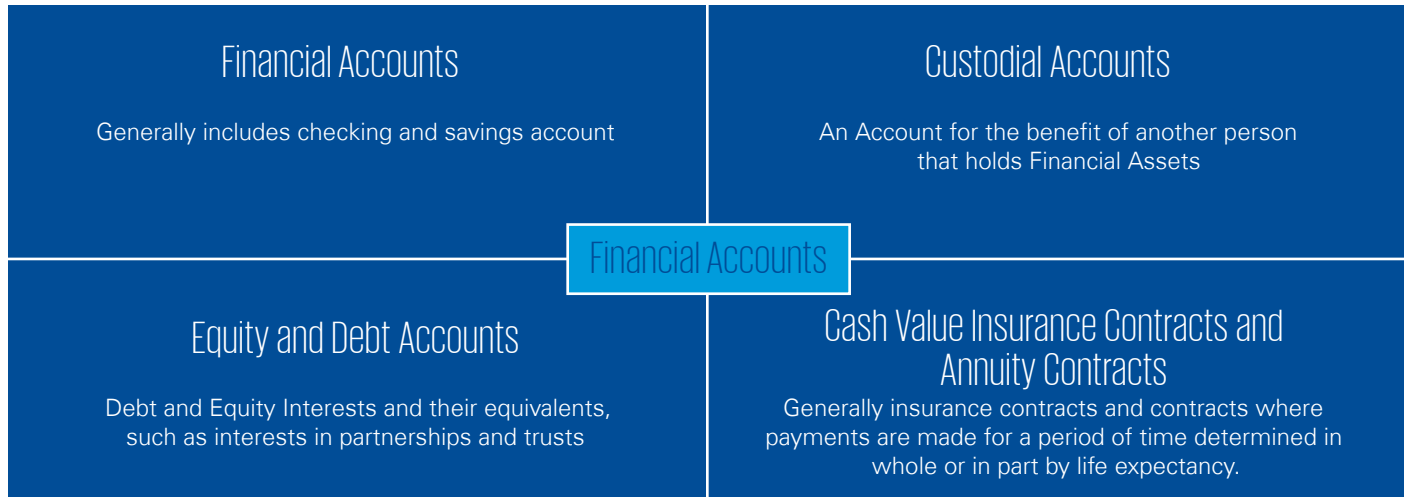
Types of Reporting FIs

Under CRS, FIs are defined as follows:

FI Categories	Descriptions
Depository Institution	Entity that accepts deposits in the ordinary course of a banking or similar business.
Custodial Institution	Entity that holds, as a substantial portion of its business, Financial Assets for the account of others.
Investment Entity	Entity that (i) primarily conducts as a business in certain financial services or asset management on behalf of a customer or (ii) its gross income is primarily attributable to investing, reinvesting, or trading in financial assets, if the entity is managed by another financial institution.
Specified Insurance Company	Entity that is an insurance company that issues, or is obligated to make payments with respect to a Cash Value Insurance Contract or an Annuity Contract.

Types of Financial Accounts

Financial Accounts are categorised as follows:



Reportable Accounts and Reportable Persons

A Reportable Account is defined as a Financial Account held by one or more Reportable Persons. A Reportable Person refers to an individual or entity resident in a Reportable Jurisdiction for tax purposes under the laws of that jurisdiction unless explicitly excluded from being so.

Applying Due Diligence Rules

There are different rules for accounts held by individuals and entities as well as for pre-existing and new accounts.

Relevant Financial Information

Once an account is determined to be a Reportable Account, the FI must report information in relation to that account to the tax authority. Such information includes:

Information	Descriptions
Identification information	Information required to identify the Account Holder concerned, such as name and address of the account holder and his/her jurisdiction of residence.
Account Information	Information to identify the account and the FI where the account is held.
Financial Information	Information in relation to the activity taking place in the account and the account balance.

Participating Jurisdictions

CRS went live on 1st January 2016, with 55 jurisdictions as early adopters. The first AEOI will be held in 2017. Another 46 jurisdictions, including Singapore, will begin first CRS data capture on 1st January 2017 and hold the first AEOI in 2018.

Singapore's Commitment to AEOI

On 3rd November 2014, then Finance Minister Tharman Shanmugaratnam announced that Singapore will implement AEOI under CRS by 2018. He stressed that Singapore would only enter into AEOI arrangements with Participating Jurisdictions that:

- help ensure a level playing field among all major financial centres to minimise regulatory arbitrage;
- possess strong rule of law and the ability to safeguard the confidentiality of information exchanged; and
- are committed to reciprocal AEOI arrangements with Singapore.

The Minister added that the conditions were necessary to ensure the confidentiality of information exchanged and prevent its unauthorised use. This emphasis on information confidentiality

appears to be in response to concerns raised over the differing information protection standards in various jurisdictions and the ability of receiving jurisdictions to ensure information confidentiality.

The Standard has introduced safeguards to protect information confidentiality, such as requiring Participating Jurisdictions to implement data protection laws and appropriate policies to restrict access to data on a "need-to-know" basis. As an added measure, Singapore also requires prospective AEOI partners to demonstrate the ability to safeguard information confidentiality.

Ministry of Finance (MOF) Public Consultation Exercise on CRS

Aligned with the commitment to commence AEOI by 2018, Singapore's MOF held a public consultation exercise on proposed changes to the Income Tax

Act and gave its response in March 2016. The Ministry's responses include the following:

- The implementation of the "Wider Approach" by FIs to collect and retain data on all account holders but only report to the Inland Revenue Authority of Singapore (IRAS) information relating to account holders who are tax residents of Singapore's AEOI partners;
- Sanctions on account holders who wilfully provide false information on their tax residency under CRS; and
- Authorisation and audit requirements to be imposed by IRAS for effective implementation of CRS.

MOF also announced draft Regulations to help operationalise AEOI in Singapore, and held a separate public consultation on the draft Regulations between 11 and 29 July. The draft Regulations included the list of Non-Reporting FIs and Excluded Accounts, and due diligence and reporting requirements for CRS.

Challenges for FIs under CRS

CRS introduces new challenges for FIs. These include:

Differences in Definitions

FIs may face difficulties in classifying entities due to the differences in definitions between FATCA and CRS, and between jurisdictions under CRS.

The same entity may be classified differently under FATCA and CRS, resulting in different reporting obligations on that entity. For example, under FATCA, the United Kingdom generally considers charities to be Non-Reporting FIs. However, under CRS, charities will generally be considered Reporting FIs.

To further complicate things, under CRS, jurisdictions are afforded some scope in setting definitions. This is especially so for the definitions for Excluded Financial Accounts. Given that the same types of accounts may be designated differently in different jurisdictions, FIs will have to be cognisant of the definitions in each jurisdiction and how these differences impact the accounts held with them.

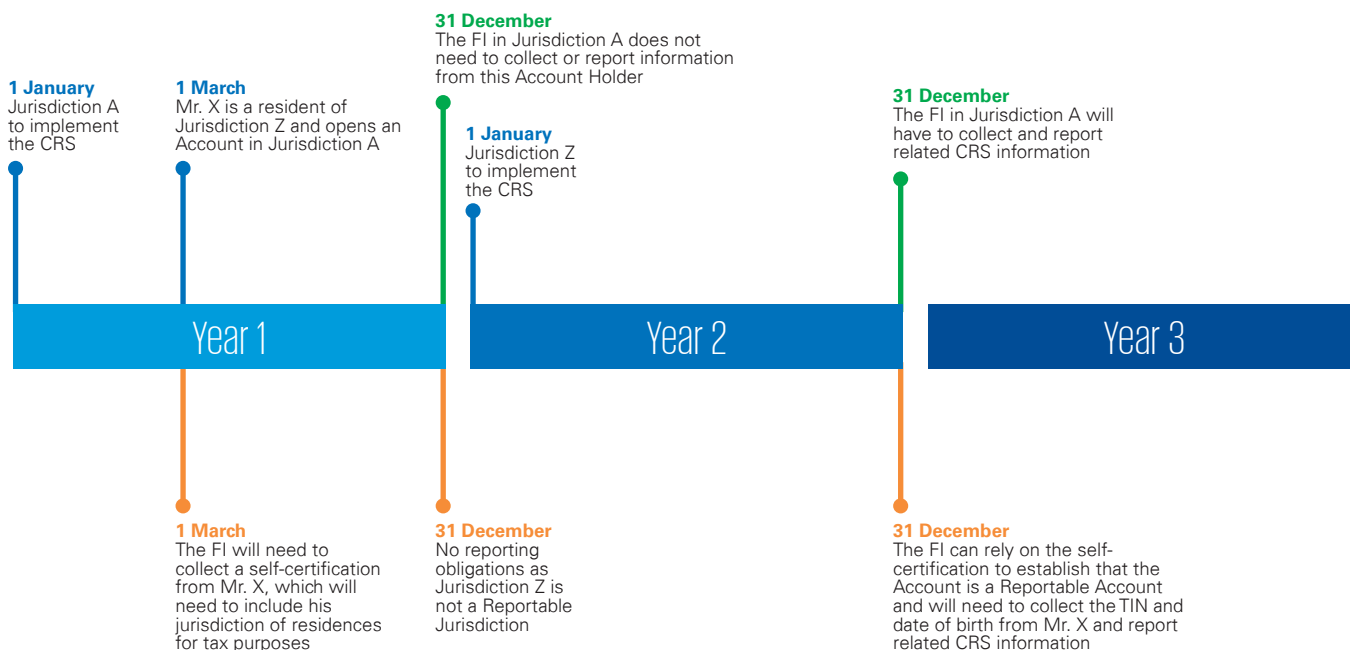


Differences in Implementation Approaches and Implementation Dates

Currently, CRS presents two approaches with which to approach the collection of data on account holders and accounts. These are namely the “Narrow Approach” and the “Wider Approach”. The table below illustrates the differences between the two approaches:

	“Narrow Approach”	“Wider Approach”
Scope	FIs to collect and retain CRS information only for tax residents of jurisdictions participating in the Competent Authority Agreement (“CAA”).	FIs to collect and retain CRS information in respect of accounts of tax residents of all jurisdictions; information to be shared only for tax residents of jurisdictions participating in the CAA.
Impact on FIs	FIs will have to keep track of the different jurisdictions that have signed the CAA and collect information each time a new jurisdiction joins the CAA.	FIs only need to collect information once (either at the start of the CRS implementation for pre-existing accounts, or when new clients are on-boarded).

The different implementation dates in different jurisdictions add further complexity for FIs as illustrated in the timeline below:



Jurisdiction Z has not implemented CRS yet, but intends to do so on 1 January of Year 2

● Narrow Approach adopted by Jurisdiction A

● Wider Approach adopted by Jurisdiction A



FIs with an international presence may face challenges in introducing robust and consistent systems across the different entities in the group if they operate in some jurisdictions that use the “Wider Approach” and others that use the “Narrow Approach”. FIs should be cognisant of the implementation approach used in each of the jurisdictions they operate in.

Larger Extent of Due Diligence

CRS eclipses FATCA in scale as it involves exchange of information among multiple jurisdictions and has fewer exemptions. For example, CRS does not have account balance thresholds for new Individual Account Holders, nor does it have the luxury of just focusing on US persons. For many FIs, this may lead to greater informational demands and costs, especially where remediation of missing data on account holders and accounts is required.

Short Turn-around Times for Meeting Local CRS Regulations

FIs operating in multiples jurisdictions will also have to monitor the release of draft guidance notes on CRS by each local tax authority. Based on the precedence set by FATCA, finalisation and enactment of local regulations usually takes place either close to, or even after, the implementation date. If the same occurs for local CRS regulations, FIs may face short turn-around times to meet the requirements of the local CRS regulations.

What This Means for FIs

With CRS, and other data exchange regimes such as FATCA, FIs face the challenge of ensuring that they will be able to comply with each regime. While FIs may choose to have specialised teams leading the implementation of each new regime, FIs should look towards building flexible and robust

technology solutions to meet the varied requirements of each regime.

In addition, FIs must also keep a close eye on regulatory developments on CRS, and ensure that they are able to put in place stronger processes and automated IT for due diligence, monitoring customer data, identifying reportable events, reporting and responding to authorities’ requests for information.

These requirements and changes will result in an increase in compliance and monitoring costs for FIs. However, a holistic approach, taking into consideration the lessons learned from implementing FATCA and AML processes, can stand FIs in good stead in adopting and meeting the requirements of CRS.

Regulatory and tax updates



Regulatory Updates

Financial Institutions

Consultation Paper on Proposed Legislative Amendments to Enhance the Resolution Regime for Financial Institutions in Singapore

In April 2016 following the feedback received on the consultation paper of June 2015, MAS proposed amendments to the MAS Act to enhance the resolution regime for financial institutions in Singapore. The purpose of the amendments is to strengthen the MAS' powers to resolve distressed financial institutions while maintaining continuity

of their critical economic functions. The draft amendments to the MAS Act includes the following topics:

- Recovery and Resolution Planning (RRP):** MAS Act will consolidate MAS' powers to impose RRP requirements on pertinent financial institutions, insurers and financial holding companies that have been notified by MAS. A new MAS Notice, as well as Guidelines, setting out further details on the RRP requirements for banks will be released.
- Temporary stays on termination rights:** MAS Act will empower MAS to temporarily stay the termination rights of counterparties to financial and non-financial contracts entered into with a pertinent financial institution or insurer over which MAS has exercised its resolution powers.
- Statutory bail-in regime:** MAS Act will empower MAS to write down or convert into equity, all or part of unsecured subordinated debt and unsecured subordinated loans issued or contracted after the effective date of the MAS (Amendment) Bill. The amendments will also empower MAS to bail-in contingent convertible instruments and contractual bail-in instruments, whose terms have not been triggered prior to entry into resolution, issued or contracted after the effective date of the MAS (Amendment) Bill. For the time being, MAS intends to apply the statutory bail-in regime to Singapore-incorporated banks and bank holding companies.
- Cross-border recognition framework:** MAS Act will set out a cross-border recognition framework for MAS to determine whether a foreign resolution action should be recognized in part or whole, or to deny recognition.
- Creditor compensation framework:** MAS Act will allow creditors and shareholders, who do not receive under the resolution of financial institution at least what they would have received had the financial institution been liquidated, to receive compensation of the difference. The Regulations will prescribe the

criteria for appointing and removing the valuer, and the required valuation principles.

- Resolution funding arrangements:** MAS Act will empower MAS to establish resolution funding arrangements, and to set out the mechanics by which a resolution fund will be established and will operate

Consultation Paper on Fintech Regulatory Sandbox Guidelines

MAS aims to transform Singapore into a smart financial centre by encouraging the adoption of innovative and safe technology in the financial sector. On 6 June 2016, MAS opened the Consultation Paper on Fintech Regulatory Sandbox Guidelines which seeks to provide a regulatory environment that is conducive for financial technological innovations.

Financial Institutions will be allowed to adopt a Sandbox approach to experiment with Fintech solutions in the production environment within a defined space and duration, where the MAS will relax specific legal and regulatory requirements. Examples of requirements that MAS might consider relaxing for the Sandbox will be provided in the Guidelines and include board composition, financial soundness, credit rating, cash balances and licence fees, amongst others.

The Guidelines will set out the evaluation criteria which will be used to assess the suitability of an applicant for a Sandbox, including, but not limited to, whether the Fintech solution is technologically innovative, whether it addresses a significant problem or issue, and evidence that the Fintech solution can be deployed on a broader scale after exiting the Sandbox.

Interested parties can submit their views and comments on the proposed Guidelines to the MAS by 8 July 2016. Furthermore firms can already and are encouraged to approach MAS to discuss how their innovative FinTech solution can be launched in the Sandbox, while the proposed Guidelines are being consulted and finalised.

Commercial Banks, Merchant Banks and Finance Companies

MAS Notice 642 Motor Vehicle Loans (applicable to all banks)

MAS Notice 1113 Motor Vehicle Loans (applicable only to merchant banks)

MAS Notice 829 Motor Vehicle Loans (applicable only to finance companies)

On 26 May 2016, MAS released amendments to the above notices. MAS eased the maximum loan-to-value (LTV) ratios and loan tenure allowed for motor vehicle loans, although restrictions will remain in place for the long term. From 27 May 2016, the maximum LTV ratio for vehicles on the open market less than or equal to S\$20,000 has raised from 60% to 70%, and that for vehicles more than S\$20,000 has upped to 60% from 50%.

Securities, Futures and Funds Management

Securities and Futures (Offers of Investments) (Exemption for Offers of Post-Seasoning Debentures) Regulations 2016

Securities and Futures (Offers of Investments) (Exemption for Offers of Straight Debentures) Regulations 2016

On 19 May 2016, MAS introduced the above regulations to facilitate retail investor participation in the corporate bond market.

The former allows for the resale six months after their initial issuance of eligible debentures of bonds issuers

to retail investors using just a product highlight sheet. It would also be possible at that same time to redenominate the seasoned bonds into smaller lots and offer them to retail investors on the secondary market.

Tax Updates

The 2016 Budget Statement was tabled in the Parliament on 24 March 2016. The following highlights are relevant to the Singapore financial services sector:

- **Extending and enhancing the Finance and Treasury Centre (FTC) scheme**

The FTC scheme grants a concessionary tax rate of 10% on qualifying income derived by approved FTCs from carrying out qualifying activities or services. To qualify for the concessionary tax rate, the FTC must obtain funds directly from qualifying sources such as financial institutions in Singapore, banks outside Singapore and approved offices or associated companies of the FTC.

Tax exemption is also granted under Section 13(4) on certain prescribed payments made by the FTC to non-residents who are approved offices or associated companies of the FTC, subject to meeting all conditions.

The above scheme was scheduled to lapse on 31 March 2016.

To enhance the activities in the areas of finance and treasury, the FTC scheme will be extended till 31 March 2021 with the following enhancements, which will take effect from 25 March 2016:

- The concessionary tax rate will be lowered to 8%. The substantive requirements to qualify for the scheme will be increased;
- To qualify for the concessionary tax rate, the FTCs will be allowed to obtain funds indirectly from its approved offices and associated companies. Safeguards will be put in place to address the round-tripping risks; and
- The scope of tax exemption granted under Section 13(4) will be expanded to cover interest payments on deposits placed with the FTC by its non-resident approved offices and associated companies, provided the funds are used for the conduct of qualifying activities or services.

The Singapore Economic Development Board has released further details on the above changes on 1 June 2016.

- **Extending and refining the tax incentive scheme for trustee companies**

Under the tax incentive scheme for trustee companies, approved trustee companies are granted a concessionary tax rate of 10% on qualifying income derived from provision of trustee and custodian services, and trust management or administration services.

From 1 April 2016, the scheme will be subsumed under the Financial Sector Incentive (FSI) scheme.

The scope of qualifying activities will be expanded to align with trustee activities covered under the FSI-Standard Tier scheme from 1 April 2016 for new and current incentive recipients. A concessionary tax rate of



12% will apply to new awards from 1 April 2016.

The current incentive recipients will continue to enjoy existing benefits till the expiry of their awards and may apply for renewal of their awards under the FSI scheme thereafter.

The Monetary Authority of Singapore will release further details by June 2016.

Tax deduction for retail bond issuances

On 19 May 2016, MAS introduced the prospectus exemptions for bonds offered under SGX’s Seasoning Framework and bonds offered by issuers that satisfy eligibility thresholds that are higher than those under the Seasoning Framework (“Exempt Bond Issuer Framework”). To further facilitate retail bond issuances, a tax deduction of up to 200% for issuance costs attributable to retail bonds issued under the Seasoning Framework and Exempt Bond Issuer Framework will be granted.

The tax concession will take effect from 19 May 2016 and will be available for 5 years.

Accounting Updates

Cash flows

In March 2016, FRS 7 Statement of Cash Flows was amended to improve disclosures from Companies by providing information about changes in Company’s financing liabilities. The amendments will help users of the financial statements to evaluate changes in liabilities arising from financing activities by separately disclosing changes that affect cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments are effective for annual periods beginning on or after 1 January 2017.



Deferred taxes

In March 2016, FRS 12 Income Taxes was amended to bring clarity that a deferred tax asset can be recognised for an unrealised loss on a debt instrument for which the holder ultimately expects to collect the contractual amount, if certain conditions are met.

The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or the expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference when unrealized losses occur.

The amendments are effective for annual periods beginning on or after 1 January 2017. The impact on financial statements will depend on the tax environment and how deferred taxes are currently accounted for.

Insurance contracts

The International Accounting Standards Board (“IASB”) has instructed the

staff to begin the balloting process for the forthcoming insurance contracts standard, paving the way for the final standard to be issued around the end of 2016.

In the meantime, the IASB will decide on the effective date and complete targeted external reviews to ensure the wording in the standard is interpreted consistently with the Board’s objectives. Insurance companies should begin assessing the potential impact on their business and closely follow issues that may arise during the balloting process.

Revenue from Contracts with Customers

In June 2016, FRS 115 Revenue from contracts with customers was amended to provide clarity on determining if the promise of transfer of goods or services to the customer is separately identifiable.

The amendments are effective for annual periods beginning on or after 1 January 2018.

Global topics



Implementing IFRS 9 - Considerations for systemically important banks

For banks, implementing the new impairment requirements of IFRS 9 may be complex and expensive. In a rare move, the Global Public Policy Committee has published a joint paper that seeks to help audit committees meet their responsibilities



Brexit — are you prepared? Briefing pack for Banking and Capital Markets

A Banking and Capital Markets report covering the possible implications of a British exit from the European Union and how firms should prepare themselves.



Panama Papers - How are you responding to the release

A KPMG US report providing valuable background and information for financial institutions with a client base that includes offshore companies.



The Pulse of Fintech, Q1 2016: Global Analysis of Fintech Venture Funding

A quarterly report, created by KPMG Fintech along with KPMG Enterprise's Global Network for Innovative Startups and CB Insights, which analyses the latest global trends in venture capital investment data on the fintech sector.



What are the hot issues regulatory-wise in Asia?

An article by Simon Topping, KPMG's regulatory expert in Asia, looking at the "hot regulatory topics" in banking around the region.



Risk Data Aggregation and Reporting: Enabling Enterprise-Wide Transformation

A brochure which outlines KPMG's RDAR quick start methodology, which offers a modular approach for a smooth application of RDAR principles, including a broad set of accelerators.



Frontiers in Finance May 2016

The May 2016 issue of Frontiers in Finance, which illustrates the huge scale and pace of the changes taking place in the global economy, and the complexity of the challenge which these external changes impose on the financial services industry.



Can Analytics Bring Trusted Customer Relationships in Banking - Global D&A Trusted Analytics Article Series - May 2016, Issue 2

As banks become more data-driven, the trustworthiness of their data and analytics will underpin trust in relationships with consumers and regulators.



IFRS Newsletter - The Bank Statement Q1 2016 (April 2016)

A quarterly publication which provides updates on IFRS developments directly impacting banks, considers accounting issues affecting the sector, and discusses the potential accounting implications of regulatory developments.



The Need for Speed: 2016 Banking Industry Outlook Survey

A survey-based report from KPMG US, which looks at how banks are forming ventures with fintech companies to increase their speed, agility and flexibility, and to better align with the digital interests of customers.



Harnessing Potential: The Asia-Pacific Alternative Finance Benchmarking Report

A report by the University of Cambridge in co-operation with Tsinghua University and The University of Sydney Business School, in partnership with KPMG, which looks at the state of the online alternative finance market in the Asia-Pacific region.



Guide to annual financial statements: IFRS 9 - Illustrative disclosures for banks

An annual guide, produced by the KPMG International Standards Group, which has been updated to reflect early application of IFRS 9 Financial Instruments.

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