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Common Reporting Standard for the automatic exchange of information

The members of the Australian Custodial Services Association (ACSA) welcome the opportunity to provide this submission to Treasury on the Discussion Paper *Common Reporting Standard for the automatic exchange of tax information* (Discussion Paper).

About ACSA

ACSA is the peak industry body representing members of Australia's investment custodial and administration sector. Collectively, the members of ACSA hold securities and investments valued at more than AUD \$2 trillion in custody and under administration. Members of ACSA include NAB Asset Servicing, JP Morgan, HSBC, State Street, RBC Investor Services, BNP Paribas, Northern Trust and Citigroup.

Support for the Common Reporting Standard (CRS)

ACSA supports Treasury in its initiative to progress the CRS proposal in a way which does not impose unreasonable or unnecessary compliance costs for the Australian investment industry.

In the limited timeframe available, ACSA has confined our submission to an overview of how we expect the CRS would apply to our industry and to address the most important areas raised in the questions posed by the Discussion Paper.

Impact of the CRS proposals on the Australian custodial industry

The impact of the CRS proposals on the Australian custodial industry is anticipated to be in 2 main areas:

1. Sub custody operations

2. Australian managed funds to which Australian custodians provide master custody services (including registry services)

Sub custody operations

These operations involve an Australian custodian holding Australian investments for a non-resident custodian (global custodian) client. The global custodian has various types of clients as the ultimate beneficial owners of the securities.

One of the critical issues for Australian custodians with sub custody operations will be the extent of look through obligations required for sub custody accounts. We understand from discussions with Treasury that look through obligations to identify controlling persons will not be required by an Australian custodian where the account holder is a foreign custodian. Feedback from ACSA members with sub custody operations is that accounts are set up in the name of the global custodian (as client of the Australian custodian) and will include further details as instructed by the global custodian.

Typical account set up structures for Australian custodians holding for a global custodian are set out in the attachment. The set up structure is decided and instructed by the global custodian and includes some accounts where there is a single client (beneficial owner) of the global custodian and some accounts where there are multiple clients with similar tax characteristics. In all instances, the global custodian is identified in the account set up.

Where the Australian custodian holds multiple accounts in the name of the global custodian, the accounts are referred to as sub accounts. Note that some Australian custodians have foreign broker/dealer clients – the service provided here may be more in the nature of clearing rather than custody. The position of broker/dealers and their status as financial institutions should be clarified.

For AILR purposes, details of income paid by Australian custodians to global custodians are reported at the sub account level.

Australian managed funds

Managed funds will be subject to the CRS requirements in respect of non-resident unit holders. Some of these funds engage their Australian custodian to provide registry administration services. The registry services will typically involve the Australian custodian preparing and lodging AILR reporting for the fund client identifying income paid to resident unit holders (with TFNS) and income paid to non-resident unit holders.

In respect of Australian managed funds, ACSA hopes that the concerns and feedback raised directly by the managed funds or through their industry representative bodies (such as the Financial Services Council) receive proper consideration by Treasury.

General comments on the CRS proposals

ACSA submits that the requirements for compliance with the CRS should, where appropriate, be designed to be as close as possible to those under current reporting requirements, including AILR and FATCA, to avoid duplication of due diligence and AML/KYC processes and associated costs and risk. Exclusions and exemptions available under FATCA should be carried across to the CRS regime.

ACSA believes it is critical that entities are able to rely on self-certification of tax residency by non-resident unit holders of managed funds provided there are no reasonable grounds to suspect reliability of the self-certification.

In general terms, ACSA supports the 'big bang' approach put forward for due diligence required for non-residents holding existing accounts. Furthermore, the reporting required should be consistent with that required by other participating countries so that solutions developed by the head office of a global custodian group can be adopted for multiple jurisdictions.

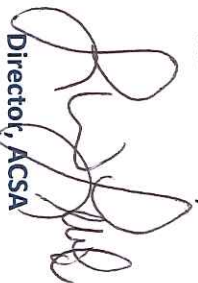
Overall, ACSA would like to emphasise:

- the need to minimise unnecessary compliance costs in implementing the CRS changes; and
- the need to give the custodian industry sufficient time to digest required changes then plan, implement and test changes required to systems and processes. 12-18 months is generally the minimum period required for such changes.

We will need the opportunity to review future proposals once developed and released.

Please contact Mick Giddings, Chair of the ACSA Tax Working Group if you want to discuss any of the issues raised above.

Yours sincerely



Director, ACSA



Chair, ACSA Tax Working Group

