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## **FATCA – The Next Technology Challenge**

In recent memory, there has been no shortage of technology challenges put forward in the fund administration industry. Modern examples include increased requirements for front and middle office services, more integrated and transparent investor reporting services, heightened online reporting capabilities, and Form PF compliance solutions, just to name a few. It should thus come as no surprise to the astute reader that the Foreign Account Tax Compliance Act (FATCA) is creating a new technological problem for investment managers, and by extension fund administrators, to solve.

It is especially noteworthy that this examination comes on the back of Form PF compliance filings, which for many annual filers is only just now being completed for the first time. Already strained internal human and technology resources, fresh off annual audits and Form PF filings, will now be asked to devote time and energy to ensuring their funds are compliant with FATCA. In addition, not only must these funds be FATCA compliant at the time of filing, but an ongoing process must be scoped and defined in order to ensure compliance into the future.

There is a great deal of information that must be catalogued, maintained, and reported to authorities with respect to the investor base in their funds. Perhaps a greater threat than the actual workload required for compliance is the risk that comes with non-compliance; this can include withholding tax as well as additional penalties if warranted. Clearly, the stakes are high with respect to FATCA and, given these challenges, investment managers are looking to put a manageable and cost-efficient process in place as soon as possible, leveraging high-grade technology where possible to streamline the process.

While a number of different organizations will likely announce FATCA compliance offerings over the coming months, a fund administrator is easily in the best position to help investment managers with preparing for FATCA and ensuring ongoing compliance. Most notably, the fund administrator is already the books of record for the funds that an investment manager oversees, meaning that a great deal of the investor data is already held within the proprietary and third-party technology that the fund administrator utilizes to service their client base.

However, it takes more than simply having the base data to deliver a sufficiently robust solution for FATCA compliance; there are several key features that any technology solution should have. First, a fund administrator's internal technology and software systems must have the ability to

store the additional data that must be collected for FATCA. The information that must be gathered and maintained goes well beyond the typical AML/KYC and due diligence information that is collected as part of the capital activity process. Many investor registry systems do not have these capabilities at present, as they were designed well before the creation of FATCA.

A second consideration revolves around what the end-to-end capabilities of a technology solution might be, beyond simply storing data. Does the FATCA compliance solution merely kick off some basic reporting, leaving the investment manager to handle the balance? Or does it truly offer a complete, front-to-back offering that allows the investment manager to outsource the entire process? If it is somewhere in between, what is included? There is much that must be done to ensure FATCA compliance, including registration with the IRS, a full gap analysis on existing data, collection of additional missing data from investors, capturing the data in a technology system, updating subscription documents for the new requirements, and more. It is imperative that any solution leverages technology as much as possible throughout this process to make certain that the process is not only accurate, but also replicable on an ongoing basis.

An additional requirement for an effective FATCA technology solution involves whether or not the solution is enacted across a consistent technology platform. As mentioned, many of the investor registry systems in use today do not have FATCA-specific capabilities at the present time. This means that, for some fund administrators, a FATCA solution will require spreadsheets and mixed technology platforms. For obvious reasons, any work that is either completed or maintained in a spreadsheet will be prone to human error through data input mistakes as well as feature manual workarounds to complete the process. Such a solution is incredibly risky and, given the risks and penalties that are already in place with respect to non-compliance, this situation needs to be avoided at all costs.

FATCA compliance represents a new and important technology challenge for fund administrators and the investment managers that they service. However, it is also an outstanding opportunity for institutional-grade fund administrators to showcase the flexibility and adaptability of their technology platforms, both third-party and proprietary. Have no illusions, compliance reporting such as FATCA is here to stay and it is just the latest in a series of technology challenges that have been put to the fund administration industry; if an investment manager finds an insufficient solution with their present fund administrator, then it begs the question of how their present fund administration solution will cope with the challenges yet to come.