The Cayman Islands and the Common Reporting Standard Issued by The Organisation for Economic Co-Operation and Development
Preface

This publication has been prepared to provide an overview of the common reporting standard issued by the Organisation for Economic Co-Operation and Development ("OECD"). It deals in broad terms with the implementation of the common reporting standard in the Cayman Islands. It is not intended to be exhaustive, or to be a substitute for legal advice or a legal opinion, but merely to provide brief details and information which we hope will be of use to our clients. We recommend that our clients and prospective clients seek legal advice in the Cayman Islands on their specific proposals before taking steps to implement them.

Persons are also advised to consult their tax, legal and other professional advisers in their respective jurisdictions as necessary.

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1. INTRODUCTION

The OECD Standard for Automatic Exchange of Financial Account Information (commonly known as the Common Reporting Standard or “CRS”) is a global information exchange regime developed to facilitate and standardise the automatic exchange of information (“AEOI”) on residents’ assets and income between participating jurisdictions on an annual basis.

The Cayman Islands have implemented the CRS into local legislation through The Tax Information Authority (International Tax Compliance) (Common Reporting Standard) Regulations, 2015 as amended by The Tax Information Authority (International Tax Compliance) (Common Reporting Standard) (Amendment) Regulations, 2016 pursuant to The Tax Information Authority Law (2017 Revision) (the “TIA Law”).

The Multilateral Convention on Mutual Administrative Assistance in Tax Matters (the “Convention”) was extended to the Cayman Islands by the United Kingdom with effect from 1 January 2014 and permits participating countries to enter into agreements that provide for the AEOI with respect to certain tax matters. Through the operation of the Convention, the Cayman Islands, along with more than 100 other countries, have signed or committed to sign a Multilateral Competent Authority Agreement providing the legal basis through which countries can agree to the CRS.

The Cayman Islands is one of the first countries to agree to implement the AEOI under the CRS (referred to as the “Early Adopter Group”), with the first exchanges of information between competent authorities of participating jurisdictions having taken place on 30 September 2017. The United States (“U.S.”), although an OECD member, is not part of the Early Adopter Group and will instead continue to rely on the provisions of the U.S. Internal Revenue Code commonly known as the Foreign Account Tax Compliance Act (“FATCA”) and related intergovernmental agreements regarding the AEOI in relation to tax matters.
2. **HOW DOES THE CRS AFFECT CAYMAN ISLANDS ENTITIES?**

Similarly to FATCA, the CRS (as implemented by the TIA Law) requires certain Cayman Islands reporting financial institutions (“Cayman Islands Reporting FIs”) to identify the tax residency of their account holders and then to report certain information on Reportable Accounts maintained for such account holders, being both new and pre-existing accounts held by individuals and entities (which includes trusts and foundations). For the CRS, certain requirements also fall on Non Reporting Financial Institutions (Non Reporting FIs). In the case of any non-individual account holder that is a “passive non-financial entity” (“Passive NFE”), a Cayman Islands Reporting FI is also required to gather information and report on the individuals that ultimately control or beneficially own such entities (i.e. “controlling persons”).

“Financial Institution” is a broad concept and covers “custodial institutions”, “depository institutions”, “specified insurance companies” and “investment entities”. The latter category includes entities whose income is primarily attributable to (re)investing or trading in financial assets, if the relevant entity is “managed by” another Financial Institution (a “Managed Investment Entity”). In some cases, organisations that have been unaffected by FATCA may find they are required to comply with the CRS. Cayman Islands entities should therefore determine their CRS classification. In particular, some of the specific exemptions to Cayman Islands Reporting FI status for certain low-risk entities under FATCA do not appear in the CRS.

Pre-Existing Accounts are those maintained by a Cayman Islands Reporting FI as of 31 December 2015, with New Accounts being those maintained by a Cayman Islands Reporting FI opened on or after 1 January 2016.

As noted above, the overall identification and reporting process under the CRS is therefore similar to that under FATCA. However there are some key differences. In particular:

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1 Non Reporting Financial Institutions are required to notify the TIA in accordance with Regulation 8 on or before 30 April 2017.
• **The CRS is based on tax residency.** The CRS is based on tax residency rather than citizenship, to reflect the fact that the US is unusual in taxing its citizens on a world-wide basis.

• **More Cayman Islands entities are treated as Cayman Islands Reporting FIs under the CRS.** The narrower scope of exemptions under CRS is expected to result in a greater number of Cayman Islands entities being treated as Cayman Islands Reporting FIs than under FATCA.

• **The volume of reportable data for Cayman Islands Reporting FIs is also likely to increase substantially under the CRS.** To date, the impact of FATCA on entities with little or no nexus with the US or UK may have been relatively light. However, the expected number of participating jurisdictions under the CRS means that, for many Cayman Islands Reporting FIs, the CRS will result in an increased compliance burden requiring preparation and management.

• **The thresholds for de minimis Financial Accounts are significantly reduced under the CRS, compared to FATCA.** There are no de minimis thresholds applicable to any individual accounts under the CRS, whether pre-existing or new. However, Cayman Islands Reporting FIs may be able to leverage information obtained under existing AML/KYC procedures in the case of pre-existing accounts. Pre-existing entity accounts with an aggregate balance of US$250,000 or less are exempted as de minimis – although if that threshold is exceeded in future years, the account will become reportable. For new accounts (for individuals or entities), there are no de minimis thresholds, so every new entity or individual account opened on or after 1 January 2016 will require self-certification to be obtained (and validated against the Cayman Islands Reporting FI’s records).

• **The CRS does not impose withholding tax.** Unlike FATCA, which imposes a 30% withholding tax on US-source income and other US-related payments made to or by a non-participating foreign financial institution in the event of non-compliance, the CRS does not impose a back-up withholding tax regime. Instead, penalties for non-compliance are specified under the TIA Law.
3. **WHAT ARE THE KEY DATES FOR CAYMAN ISLANDS REPORTING FIs and NON REPORTING FIs?**

- **1 January 2016** – Cayman Islands Reporting FIs must obtain and validate self-certifications to determine the tax residency of account holders in the case of any New Accounts opened on or after this date;

- **31 December 2016** – Due diligence procedures for identifying Pre-Existing High Value Individual Accounts (with an aggregate balance or value that exceeds US$1 million) must have been completed;

- **30 June 2017** – Deadline by which all Cayman Islands FIs being Cayman Islands Reporting FIs and Non Reporting FIs were required to make certain notifications as to their CRS reporting status to the Cayman Islands Tax Information Authority (the “TIA”), as the jurisdiction’s competent authority for purposes of the CRS;

- **31 August 2017** – Cayman Islands Reporting FIs first reporting date deadline to the TIA in respect of Reportable Accounts for reporting year 2016.

- **30 September 2017** – The first exchange of information under the CRS in relation to New Accounts and Pre-Existing Individual High Value Accounts took place with participating jurisdictions;

- **30 September 2017 / 30 September 2018** – Information about Pre-Existing Individual Lower Value Accounts and Entity Accounts to have been exchanged by 30 September 2017 or 30 September 2018 (depending on when Reportable FIs identify such accounts as Reportable Accounts).

- **31 December 2017** – Due diligence procedures for identifying Pre-Existing Individual Lower Value Individual Accounts (with an aggregate balance or value that does not exceed US$1 million), and for Pre-Existing Entity Accounts

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2 Updated pursuant to Industry Advisory dated 23 June 2017.
3 Updated pursuant to Industry Advisory dated 19 July 2017.
(with an aggregate balance or value that exceeds US$250,000, in each case as of 31 December 2015) must be completed; 

• **30 April 2018** – Cayman Islands FIs should complete their initial registration where such entity became a Cayman Islands FI in 2017; and 

• **31 May 2018** - Cayman Islands Reporting FIs must complete their reporting to the TIA by 31 May 2018 for the 2017 reporting year. It is necessary for Cayman Islands Reporting FIs to provide a NIL report where they have no Reportable Accounts. 

4. **WHAT STEPS DO CAYMAN ISLANDS REPORTING FIs NEED TO TAKE?**

Cayman Islands Reporting FIs are required to establish and maintain written policies and procedures to comply with and apply the CRS. Again, similarly to FATCA, Cayman Islands Reporting FIs will need to adapt their onboarding procedures for new investors in order to capture the requisite information that needs to be reported in order to be compliant with the CRS. 

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4 Note that the review of any Pre-Existing Entity Account with an aggregate balance or value that did not exceed US$250,000 as of 31 December 2015 but which exceeds such amount as of 31 December in any subsequent year must be conducted within the calendar year following the year in which such amount was exceeded. 

5 The Cayman Islands FI should notify the TIA on or before the next 30 April after the entity became a Cayman Islands FI. 

6 Regulation 9(1) requires Cayman Islands Reporting FIs to report to the TIA even where there is NIL Report. This requirement differs to reporting under FATCA. 

7 See Regulation 7. 

8 Due diligence procedures should capture the tax residency of account holders – so for instance, new account holders may be provided with self-certification forms; and, in the case of funds and other collective investment vehicles, for example, the constitutional documents, offering documents and subscription documents may be updated to incorporate the CRS requirements to obtain self-certification and generally to ensure that the relevant entity is able to comply with the CRS.
The TIA has issued tax self-certification forms to assist Cayman Islands Reporting FIs with their reporting requirements. Cayman Islands Reporting FIs should have all new and existing clients complete self-certification forms.

5. WHAT INFORMATION NEEDS TO BE NOTIFIED TO THE TIA?

A Cayman Islands FI, being either a Cayman Islands Reporting FI or a Non Reporting FI, is required to notify the TIA no later than 30 April in the first calendar year in which the Cayman Islands FI is required to comply with the reporting obligations with the following information:10

- The institution’s name and any number given to it by the TIA as an FI;
- Whether the institution is a Cayman Islands Reporting FI or a Non Reporting FI;
- If the institution is a Cayman Islands Reporting FI, its classification;
- If the institution is a Non Reporting FI, its classification;
- The full name, address, business entity, position and contact details (including electronic address) of (i) an individual the institution has authorized to be its principal point of contact for CRS compliance; and (ii) an individual the institution has authorized to give change notices for its principal point of contact.

The Cayman Islands FI must notify the TIA immediately of any change to the information provided.

9 Use of the TIA issued form is not mandatory.

10 Thereafter, notifications are required to be made no later than 30 April in the first calendar year for which the Cayman Reporting FI is required to comply with the reporting obligations.
6. WHAT INFORMATION NEEDS TO BE REPORTED TO THE TIA?

On or before 31 May in each year\(^{11}\), a Cayman Islands Reporting FI will be required to report the following information to the TIA in respect of each “reportable account”:

- The name, address, jurisdiction(s) of tax residence, tax identification number(s), date and place of birth of each account holder that is a “reportable person” (and each of its Controlling Persons, in the case of an account holder that is a Passive NFE);

- Account number (or functional equivalent);

- Name and identifying number (if any) of the Cayman Islands Reporting FI; and

- Certain financial information (e.g. account balance or value and certain gross amounts paid or credited to the account during the relevant reporting period).

7. REPORTING INFORMATION

The requisite reporting by Cayman Islands Reporting FIs, as is the case with FATCA, is done by Cayman Islands Reporting FIs through the Cayman Islands Automatic Exchange of Information Portal (the “AEOI Portal”). Information provided by a Cayman Islands Reporting FI to the TIA via the AEOI Portal is exchanged automatically by the TIA with the relevant tax authorities in each participating jurisdiction. The TIA is required to publish periodically a list of jurisdictions to be treated as participating jurisdictions for the purposes of the CRS. All information exchanged is required to be subject to confidentiality and other data safeguards.

8. OFFENCES

In the event that the TIA Law and Regulations are contravened, persons and Cayman Islands FIs, as applicable, risk committing various offences. The range of offences is extensive and the penalties and fines associated with breach are significant. It should

\(^{11}\) The deadline for reporting was 31 August 2017 for the 2016 year.
be noted that a person commits an offence if a person makes a self-certification that is false. For this purpose it does not matter if the self-certification was made outside of the Cayman Islands, the person did not know, or had no reason to know that the self-certification was false or that the self-certification was given to the institution by someone else.

Further, a Cayman Islands FI commits an offence *inter alia* if (i) in purported compliance with Part 2 of the Regulations (dealing with application of the CRS), the institution gives the TIA information that is materially inaccurate (the “act”) and (i) the institution knew of the inaccuracy when the act was done, (ii) in doing the act behaved fraudulently, intentionally, negligently or recklessly; (iii) in doing the act, contravened its policies and procedures under Regulation 7; or (iv) discovered the inaccuracy after doing the act, but did not notify the TIA about the inaccuracy as soon as practicable after making the discovery.

If a Cayman Islands FI commits an offence, all directors, managers and secretaries and other similar officers to any such office whatever called, are also guilty of the offence.

When deciding whether to impose a penalty or an amount of a fine, the TIA is required to consider the following criteria in the following order of importance:

- The need to ensure strict compliance with, and to penalize and deter contravention of, the Regulations;
- The nature, seriousness and consequences of the contravention;
- The apparent degree of the party’s inadvertence, intent or negligence in committing the contravention;
- The party’s conduct after becoming aware of the contravention; and
- The party’s history of compliance.

Further, the TIA may also consider other matters as it considers relevant.

**FURTHER GUIDANCE**

For further guidance please contact your usual Conyers Dill & Pearman contact.
This publication should not be construed as legal advice and is not intended to be relied upon in relation to any specific matter. It deals in broad terms only and is intended merely to provide a brief overview and give general information.

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