WHITE PAPER

Quality Assurance for Foreign Account Tax Compliance Act (FATCA)
Overview of FATCA and quality assurance for the regulation

The Foreign Account Tax Compliance Act (FATCA) was introduced by the United States in 2010 to prevent offshore tax evasion by US citizens and to improve compliance. Foreign Financial Institutions (FFIs) will need to report to the IRS, the financial accounts held by US taxpayers (even if they hold only non-US assets) or by foreign entities in which US taxpayers hold a substantial ownership interest or be subjected to 30% withholding tax on any US-sourced income and sales proceeds.

Complying with FATCA and managing Quality Assurance (QA) within the specified time frame is a complex task with multiple work-streams for the Program Office to deliver. Developing a quality assurance process, either internally or by a third party, will give the FFIs an independent assessment of the status and highlight any potential issues in time to take corrective action.

**FATCA at-a-glance**

- **Impacted banking sectors**
  - Retail banking
  - Investment banking
  - Private wealth banking
  - Custody
  - Prime brokerage
  - Capital business

- **Impacted departments**
  - Information technology
  - Compliance (e.g. AML, KYC)
  - Onboarding and customer data
  - Finance
  - Relationship management
  - Payment processing settlement

- **Required documents**
  - W-8 forms
  - W-9 forms
  - Information waiver document
  - Identity document

- **Key drivers**
  - Program governance / ownership
  - Legal entity analysis
  - Existing account information
  - Compliance monitoring
  - Identification of reportable and withholdable relationships
  - Certification by responsible officer

- **Options for FFIs**
  - Become participating FFI (PFFI) with IRS
  - Comply with Inter-Governmental Agreement (IGA)
  - Register with IRS and obtain GIIN
  - Update due diligence process in accordance with IGA
  - Withhold & report as per IGA
  - Certification by responsible officer

- **FFIs’ obligations**
  - Become participating FFI (PFFI) with IRS
  - Comply with Inter-Governmental Agreement (IGA)
  - Suffer 30% withholding on US income

- **Program governance / ownership**
  - Legal entity analysis
  - Existing account information
  - Compliance monitoring
  - Certification by responsible officer
Key quality assurance challenges

- Identifying impacted areas - Due diligence and understanding of FATCA related processes, systems and flow of information between different systems to ensure QA coverage of all impacted systems and applications under test.
- Understanding business drivers - Changes in business process, integration of new Commercial off the Shelf (COTS) products and third party applications if needed.
- Understanding compliance drivers - The data flow of FATCA-related information between interface systems and analyzing them to ensure coverage of all impacted systems and functionalities.

Understanding QA approach for technology drivers - New functionalities, feature enhancements, system upgrades and ongoing maintenance.
Managing FATCA documents and different forms with details of requirements for different systems and consolidating them into a QA requirement document.
Managing QA within limited timeframe and achieving FATCA compliance within US IRS timeframe.

Scope of testing in FATCA compliance process

| Customer onboarding and KYC | Compliant customer onboarding process:
| FFIs must ensure that all the customer details are captured with evidence at the point of onboarding.
| Validate the completeness of the submitted IRS forms - W-8 and W-9 forms.
| Validate the systems for data retention and change tracking capabilities for a tenure of 6 years.
| Remediation:
| Validate the process of identifying prima facie FFIs.
| Validate the process of identifying high-value accounts.

The following checks are performed for US persons and companies
Accounts over USD 1 million – Physical check of customer documents
Validation to be performed on the electronic process

| Compliance monitoring | Validate the process / tool implemented to identify US Indicia of the following types:
| US citizenship or permanent residence (e.g. US passport).
| US address (resident or correspondence) (e.g. Zip Code – 90 210).
| US place of birth (e.g. Miami).
| US telephone number (e.g. +1 212 etc).
| Power of attorney or signatory authority granted to person with US address.
| Standing instructions to transfer funds to account maintained in the US or directions received from a US address.

| Reporting | Validate the reporting model that covers the process of reporting the account balances and gross payments for all reportable accounts.
| Validate the completeness of the extracts if the reporting is done by a third party vendor.
| Validate the process of verifying FFI regulations that impact the ability to make disclosures to IRS.

| Tax withholding | Validate the systems on their capability to perform withholding functions.
| Verify the withholding payments and other types of payments on which the withholding tax is applicable.
| Validate the process of withholding on recalcitrant/non-participating account holders.

| Governance | Certification to IRS and ongoing review of compliance
| Identify team which will perform certification function and the back-up documentation they will need
Mindtree’s phased approach for FATCA quality assurance

Mindtree, with its strong domain insights into regulations and understanding of bank’s IT systems, has devised a three-phased approach for FATCA quality assurance. It looks for any intended GAPS in the implementation process and reports to the stakeholders and enables informed decision-making. The process is designed to not only look at the technical validations but also at the built-in rule-based engine and processes.

**FATCA QA framework**

*Data transfer across interfaces*  
Validate the input / output parameters

*Security testing*  
Validate security architecture and APIs  
Security audit and review  
Network vulnerability assessment

*Performance testing*  
Test strategy  
Environment prep  
Test prep  
Test execution  
Analysis and reporting

*Interface testing*  
Build verification  
Functional automation  
Regression tests

*Development testing*  
Data compliance  
Data transformation  
Data quality  
Report  
Data integration  
Non-functional  
Performance and security  
User acceptance

*Why QA?*  
Business drivers  
Changes in business process  
New products / COTS  
Compliance and legal  
Compliance drivers  
Risk management  
Strategic governance

*Technology drivers*  
New functionality  
Enhancements  
Upgrades  
Maintenance

*DUE DILIGENCE*  
New account onboarding  
Due diligence  
Contracts and transactional agreements

*Milestones*  
Registration reporting  
Reporting  
Withholding  
Compliance and verification

**AUT**  
KYC / AML process and systems  
Payments and transactions process and systems  
Reporting systems  
Documentation and record management  
Regulatory reporting processes  
Customer accounting and taxation  
Products origination and transactions systems

*Functional testing*  
Risk based testing  
Session based testing

*Dev/Test / shift left*  
Agile testing  
Static requirement test  
API testing  
Stored procedure  
Non functional

After recognizing key global compliance imperatives, the focus should be on building comprehensive QA framework that will enable financial institutions to optimize the efficiency and effectiveness of FATCA implementation and achieve compliance within prescribed timelines.

- Recognize quality assurance drivers: understand business, compliance and technology drivers.
- Understand FATCA milestones: due diligence, registration, reporting, withholding, compliance and remediation.
- Identify impacted applications.

- Functional testing: functional test case design and execution involves business rules, happy path and negative testing for end-to-end scenarios.
- Interface testing: data transfer across interfaces, validate data transfer across the interface, data quality and consistency issues.
- Security testing: analyze functional and non-functional security aspects.
- Performance testing: analyze and identify the responsiveness and stability of the system.
Test automation: Comprehensive validations of various automations adopted by the bank. For eg., process automation, work-flow automation, functional test automation, etc.

Data-centric testing: focus on data completeness, transformation, quality, report, non-functional testing

DevTest (for Agile) or white box testing.

Key success factors for FATCA quality assurance

- Early detection of critical defects: focus should be on identification of critical defects during early stages of the project / implementation.
- Test efficiency and effectiveness: This is key to achieve QA within limited timeframe
- Test automation: Automation is the only way to minimize customer impact and reduce on-boarding time
- QA partner (Total quality service provider): partner with a provider who is equipped with:
  - Financial domain-centric test capability – depth of knowledge of regulations and its impact on financial systems.
  - Specialized testing capability – automation, data-centric and performance.
  - Delivery maturity – continuous integration testing to support Agile continuous delivery.
  - Test efficiency focus – risk-based testing, session-based testing, orthogonal array and dependency structured matrix.
  - Availability of point solution to accelerate FATCA regulation.

Quality assurance / testing for FATCA requires specialized testing skills coupled with domain expertise and a comprehensive understanding of the IT systems. It requires professionals with good techno-functional abilities to see the broader picture and develop test cases to ensure systems and process compliance.

Reach out to us at info@mindtree.com for any further queries.

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He has rich experience in consulting and implementing Testing Centers of Excellence (TCoEs), Managed Test Function (MTF), Testing-as-a-Service (TaaS) and unit and volume-based pricing for large complex projects.

He is proficient with testing / quality frameworks like Lean, Six Sigma, CMMI SVC and Sogeti TPI Next Framework.

Prior to joining Mindtree, he worked for 10 years with Wipro Technologies where he managed large, complex, high-value testing projects for Fortune 500 clients including Microsoft, Hewlett Packard and Motorola. He has carried out key testing roles in USA, Germany, Sweden, Malaysia and Thailand.

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About Mindtree
Mindtree [NSE: MINDTREE] delivers technology services and accelerates growth for Global 1000 companies by solving complex business challenges with breakthrough technical innovations. Mindtree specializes in e-commerce, mobility, cloud enablement, digital transformation, business intelligence, data analytics, testing, infrastructure, EAI and ERP solutions. We are among the fastest growing technology firms globally with more than 200 clients and offices in 14 countries.