**Compliance Product**

**FATCA Filtering & Matching**

Electronic Search for US Indicia and

Electronic Identification of U.S. Accounts

January 2014
Current Situation

On 14 February 2013 the FATCA agreement\(^1\) was signed by State Secretary Michael Ambühl and US ambassador Donald S. Beyer. With the enactment of the Foreign Account Tax Compliance Act (FATCA), the United States wishes to ensure that all accounts held abroad by US taxpayers can actually be taxed.

FATCA is a unilateral set of US regulations that applies worldwide for all countries. It requires Foreign Financial Institutions (FFIs) to enter into an agreement and disclose information on US accounts to the Internal Revenue Service (IRS) or levy a high tax within that framework.

In the final vote of parliament on 27 September 2013\(^2\) the FATCA agreement was approved and the implementing act was adopted (BBl 2013 7377). A few days later, Switzerland and the United States have amended the FATCA agreement in line with the new timetable for FATCA implementation by means of an exchange of notes. Swiss Financial Institutions now have to implement FATCA from 1 July 2014 rather than from 1 January 2014. Financial institutions that do not implement FATCA will lose access to the US capital market and be avoided by FATCA-compliant institutions.

Annex 1 of the agreement describes the obligations for identifying and reporting on U.S. accounts. One of the requirements ist that individual accounts with a balance of more than $50,000 must be searched electronically for U.S. indicia. Eurospider is providing two different solutions to search for these U.S. indicia.


Another requirement is that, if any Controlling Person of a Passive Non-Financial Foreign Entities (Passive NFFE) is a citizen or resident of the United States, the account of this entity shall be treated as a U.S. Account. Many Swiss SMEs (Small and Medium Enterprises) may be a Passive NFFE, because a substantial portion of the gross income may be passive income and the stock of the SME is usually not traded. Note that the existence of a controlling person and the knowledge about passive income is usually not evident to the Swiss Financial Institution which is managing the account of the entity. Eurospider and its partners (KYC Spider AG, Orell Füssli Wirtschaftsinformationen AG) is providing this information.

We offer

Eurospider provides a solution with filters to search for the following U.S. indicia:
- U.S. citizenship,
- U.S. residency,
- U.S. place of birth,
- U.S. addresses,
- U.S. phone numbers,
- U.S. accounts of individuals,
- Private Equity controlled by a U.S. Person.

Eurospider provides a complete processing chain where the filtering is complemented with verifying, reporting, and archiving processes.
In addition, Eurospider provides a matching application to identify accounts that are likely to be considered as U.S. accounts of entities.

The entities and persons within these link chains are usually not evident to the Swiss Financial Institution.

**Performance**

Eurospider is applying High Performance Filtering for many years and has a thorough knowledge of them:

- Customer data transferred by the CRM system are filtered for U.S. indicia at high speed.
- Retrieved U.S. indicia are forwarded for verification.
- All verifications are archived in an auditable way.
- Periodic searches are easily possible due to the high performance and especially due to the Intelligent Whitelisting.
- Intelligent Whitelisting prevents from unnecessary multiple verifications.
Filtering Quality

Searching for U.S. indicia is a typical Information Retrieval (IR) task which cannot be accomplished without minor errors. The objective is to find as many as possible indicia while minimizing the so called false alarms:

- State of the art filters are based on machine learning techniques. The filters are optimized by means of training data.
- These optimization techniques aim at maximizing the recall (i.e. the portion of relevant indicia which are detected) ...
- while minimizing the false alarms, or equivalently maximizing the precision (i.e. the portion of detected indicia which are relevant).

Ad-hoc Solution

Eurospider provides an simple and fast ad-hoc solution consisting of a computer on which the FATCA filtering system is preinstalled. This stand-alone computer will be brought to the customer’s site where the data, which is subject to FATCA, is transferred to the computer and filtered for FATCA relevant indicia. The filtering process is secure because no network connection is needed.

This ad-hoc solution has been successfully applied in situations where

- results are needed within a short time frame,
- little requirements on the data format are imposed, and
- a high degree of confidentiality is required.

Upon the delivery of the results, the hard disk of the stand-alone computer is given to the costumer for a proper disposal according to the internal security guidelines.
**Process Integration**

For easy integration into existing processes, Eurospider provides a Java reference implementation, i.e. a showcase implementation exporting customer data to the FATCA filters by http post (JSON).

Alternatively, electronic documents and master data can be transmitted to the FATCA filters via SFTP.

Analogously, master data of entities are transmitted either by JSON or SFTP to the matching application which is determining U.S. accounts.

**Security**

- The filters are installed inhouse, all customer data remain in the secured area.
- Within the secured area, the data transfer is encrypted.
- All configurations are documented and archived.
- Changes of the configuration are traceable because of auditable logging.
Basic Definitions

FFI = Foreign Financial Institutions
(Foreign Account Tax Compliance Act vom 18. März 2010)

Swiss Financial Institution = Swiss or non-Swiss branch/office of a Financial Institution located in Switzerland
(Art. 2 of the FATCA Agreement)

NFFE = Non-Financial Foreign Entity
(Section VI of Annex I of the FATCA Agreement)
Interested?

Do not hesitate to contact Peter Schäuble.

Address:
Eurospider Information Technology AG
Schaffhauserstrasse 18
8006 Zurich, Switzerland

Telefon: +41 43 255 25 25
Internet: www.eurospider.com
Mail: peter.schauble@eurospider.com