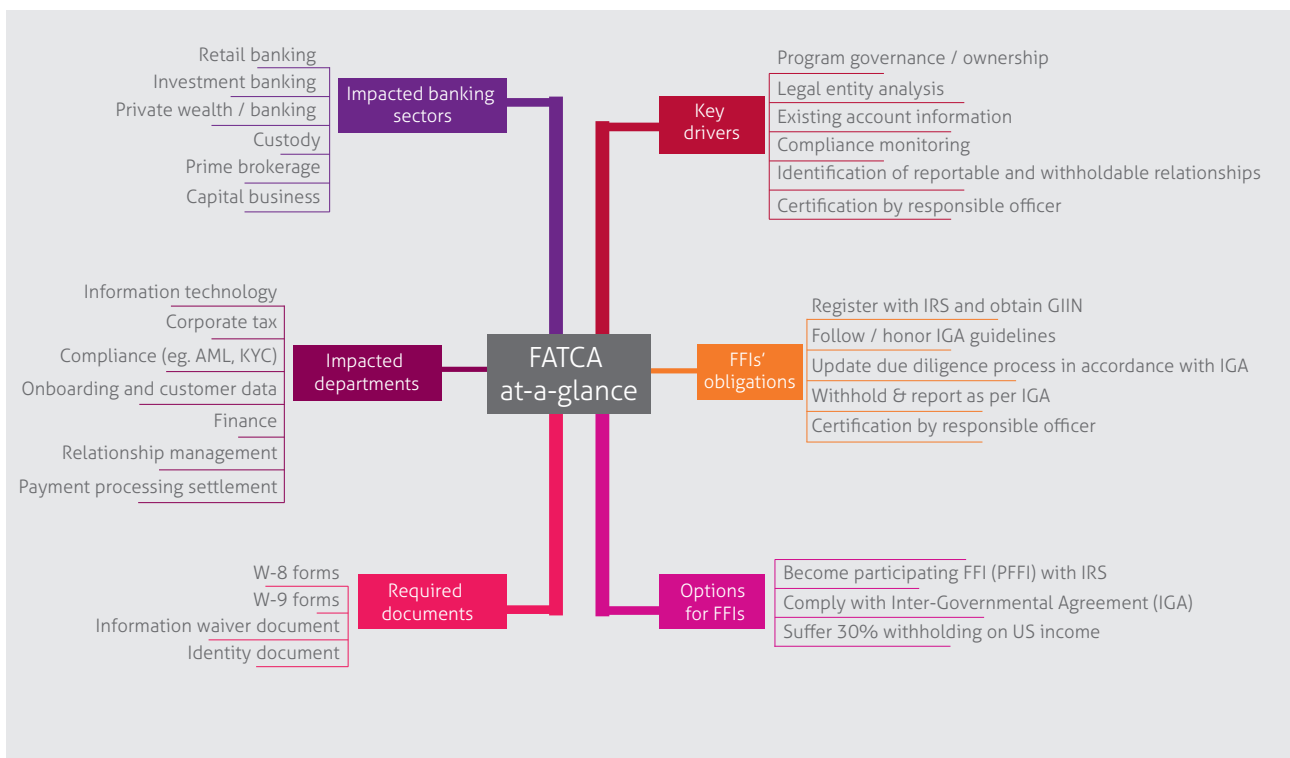# Quality Assurance for Foreign Account Tax Compliance Act (FATCA)

Overview of FATCA and quality assurance for the regulation

The Foreign Account Tax Compliance Act (FATCA) was introduced by 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.

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

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

Impacted departments:
- Information technology
- Corporate tax
- Compliance (eg. AML, KYC)
- Onboarding and customer data
- Finance
- Relationship management
- Payment processing settlement

FFIs' obligations:
- Register with IRS and obtain GIIN
- Follow / honor IGA guidelines
- Update due diligence process in accordance with IGA
- Withhold & report as per IGA
- Certification by responsible officer

FATCA at-a-glance

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

Options for FFIs:
- Become participating FFI (PFFI) with IRS
- Comply with Inter-Governmental Agreement (IGA)
- Suffer 30% withholding on US income
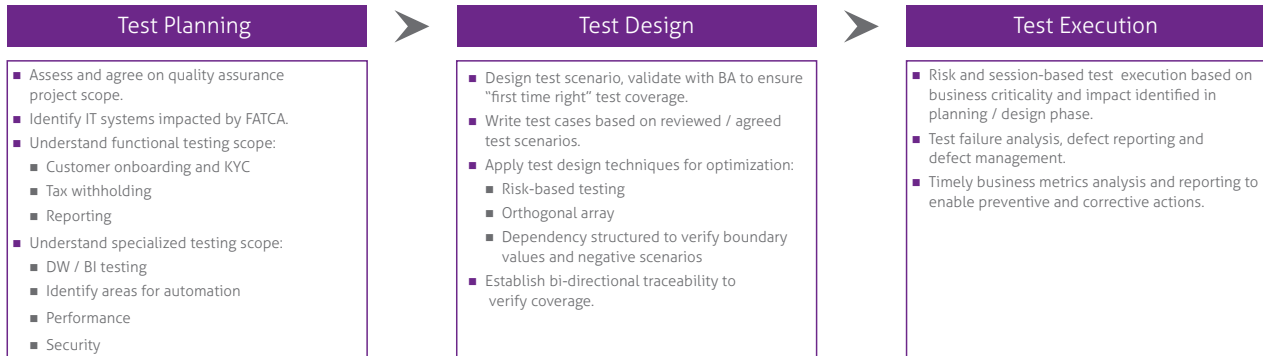
Key quality assurance challenges

- 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.

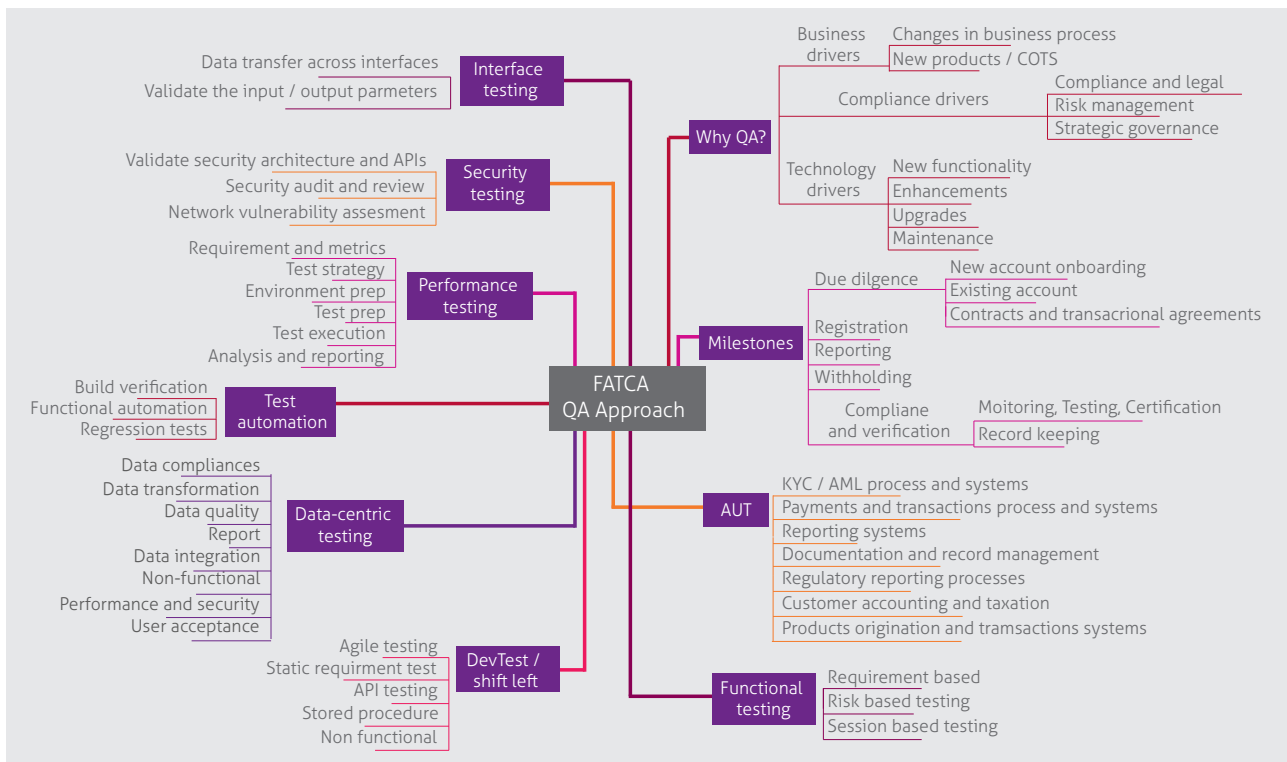## Scope of testing in FATCA compliance process

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.

Test Planning	Test Design	Test Execution
■ Assess and agree on quality assurance project scope. ■ Identify IT systems impacted by FATCA. ■ Understand functional testing scope: 　■ Customer onboarding and KYC 　■ Tax withholding 　■ Reporting ■ Understand specialized testing scope: 　■ DW / BI testing 　■ Identify areas for automation 　■ Performance 　■ Security	■ Design test scenario, validate with BA to ensure "first time right" test coverage. ■ Write test cases based on reviewed / agreed test scenarios. ■ Apply test design techniques for optimization: 　■ Risk-based testing 　■ Orthogonal array 　■ Dependency structured to verify boundary values and negative scenarios ■ Establish bi-directional traceability to verify coverage.	■ Risk and session-based test execution based on business criticality and impact identified in planning / design phase. ■ Test failure analysis, defect reporting and defect management. ■ Timely business metrics analysis and reporting to enable preventive and corrective actions.

FATCA QA framework

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 quality assurance – combination of quality assurance artifacts, best practices and technologies which have been developed to provide a head-start in testing 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.

Subrata Kumar Das is Program Director and Head of BFSI Testing practice at Mindtree. Subrata has over 16 years of experience in testing, project delivery and business roles. He is a Certified Scrum Master (CSM) and certified Project Management Professional (PMP)

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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Bharath Bhaskar is a Senior Consultant with the Banking and Financial Services practice. He is a leader in the Governance, Risk and Compliance vertical. He has spent over 12 years with leading financial organizations assisting them with their mergers, acquisitions, legacy modernization, regulatory and compliance matters. He has successfully managed a range of cross functional projects in various geographies.

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.