



CRS Amendments Ahead: Essential Compliance Steps for Financial Institutions

09 October 2024

Introduction

On 2 October 2024, the OECD released the Amended Common Reporting Standard (“CRS”) XML schema. For Financial Institutions in the EU, this new reporting schema will be adopted under DAC8, the 7th amendment to the Directive on Administrative Cooperation (“DAC”), whose provisions will come into effect as of 1 January 2026.

While the new CRS reporting requirements may not seem substantial at first glance, the operational effort required by financial institutions to implement them will be considerable. Financial institutions should prioritize preparation starting today to ensure a smooth transition to the new requirements and minimize disruption to existing processes.

We will first summarise the CRS changes brought on by DAC8, followed by details of the reporting changes introduced in the new OECD Schema.

CRS Amendments

- **Inclusion of new financial products:** The definition of Depository Accounts now includes electronic money (e-money) and Central Bank Digital Currencies (CBDC), expanding beyond traditional banking and interest-bearing accounts. Entities holding e-money or CBDC for customers would now be classified as Depository Institutions under CRS.
- **Expanding the definition of Investment Entities:** Crypto-asset derivatives are now considered Financial Assets. The definition of Investment Entities also includes those investing in Crypto-Assets, broadening their scope under CRS.
- **Qualifying certain capital contribution accounts as Excluded Accounts:** Capital contribution accounts, used temporarily for company setup or capital increases, are now classified as Excluded Accounts for up to 12 months, provided safeguards are in place.
- **Customer due diligence:** For new entity accounts, financial institutions must align their AML/KYC procedures with the EU Anti-Money Laundering Directive when determining Controlling Persons.
- **Exclusion of genuine charities from reporting requirements:** Genuine non-profits can now be categorized as Non-Reporting Financial Institutions, subject to conditions and verification by tax authorities.

Reporting Amendments

- **Self-Certifications:** The annual CRS report will require specifying whether the account holder or any Controlling Person of a Passive Non-Financial Entity (PNFE) has a valid self-certification on file. This certification is valid only if it has passed the “reasonableness test” by

the Financial Institution, which may require more thorough data capture and validation processes, as well as a record review for all account holders.

- **Equity Interest role:** For any Equity Interest held in an investment entity that is a legal arrangement, the role of the Reportable Person must now be identified. This change will require more detailed record-keeping for investment entities to accurately report on the role of each party. The allowable entries are: settlor, trustee, protector, beneficiary, or other equivalent roles.
- **Joint Accounts:** The new schema requires the identification of joint accounts. Institutions will need to specify the number of joint account holders, ensuring systems can accommodate this data requirement.
- **Due Diligence Procedure:** CRS reports must now identify an account as new or pre-existing, with new accounts being those opened on or after 1 January 2016. This data element will help tax authorities assess whether financial institutions are applying appropriate due diligence procedures, as certain exemptions for pre-existing accounts do not apply to new accounts.
- **Account Type:** Any reportable account must now be categorized as one of the following: Depository Account, Custodial Account, Cash Value Insurance Contract or Annuity Contract, or Debt or Equity Interest in Investment Entity. Systems will need to be updated to ensure that the account type is accurately reported.
- **Controlling Person Type:** Under DAC8, financial institutions are now required to report the role of a Controlling Person in relation to an entity account holder that is a PNFE. This was previously optional but is now mandatory, necessitating updates to onboarding and reporting procedures.
- **Account Number Types:** While optional, the account number type field has been expanded to include new categories such as “Specified Electronic Money Product.” Institutions that deal with e-money products may want to take advantage of this field to specify account types more accurately.

Next steps

These changes to CRS will take effect on 1 January 2026, with the first report due in 2027. Financial institutions as well as fund administrators and corporate service providers should begin implementing the required changes now.

In addition to IT modifications for reporting solutions, significant effort will be required to reassess client portfolios, especially in reviewing and validating self-certifications and documenting the roles of Controlling Persons in Passive Non-Financial Entities.

How can Grant Thornton help?

We can assist financial institutions in implementing effective processes to ensure compliance with the new requirements as follows:

- **Process health checks:** Evaluating gaps between current practices and future compliance needs.
- **Training and awareness:** Offering targeted training on DAC8 and CRS amendments.
- **Governance and procedures:** Establishing clear policies to manage the new reporting requirements.

- Ongoing compliance management: Providing ongoing support to ensure adherence to the new rules.
- Data health checks: Ensuring data accuracy and readiness for the new reporting format.
- Reporting and filing: Assisting with the correct submission of CRS reports under the new schema.