



Update on Foreign Account Issues Dealing with the Practical Problems

May 9, 2013 | Presented by Stephen Foster, TEP, Director, International Solutions
Royal Bank of Canada San Francisco Representative Office



RBC Wealth Management

There's Wealth In Our Approach.™



RBC Wealth Management

Overview

- **Challenges Facing US Persons**
- **Why are we in the current situation?**
- **Why would a US person open a relationship with a FFI?**
- **Why are FFIs asking the questions they ask of clients?**
- **Does choice of jurisdiction make a difference?**
- **Information requested from clients**
- **Source of funds**
- **What checks do FFIs do independently of their forms?**
- **Enhanced due diligence**
- **Politically Exposed Persons**
- **Making the process easier**
- **Summary**

Challenges facing US Persons

Not just an issue facing US citizens but also green card holders

- Important to establish whether foreign clients have green card (especially those from emerging markets). They won't always tell you.

Appears to be getting more difficult for US persons to open accounts/trusts with FFIs

Increased due diligence and Know Your Client (KYC) information

Are FFIs still accepting US persons as clients ?

- Yes, but not as many as there used to be and the solutions available are more limited in scope

The primary focus is going to be banking accounts, however, all of this applies to trusts, custody, investment

- Investments for US persons have additional issues:
 - SEC registration

Why are we in the current situation ?

- **US persons failing to declare accounts with FFIs**
- **Swiss Banks v IRS**
- **Global financial meltdown**
- **Governments around the world are looking for revenue**
- **FATCA**
- **FFIs evaluating what their core markets will be – does it make economic sense to service US clients?**

Opening a relationship with a foreign financial institution

Why would a US person want a relationship with a foreign financial institution ?

- International business
 - Convenience for all parties to use a FFI for transactions
- Diversification
 - Currency
 - Geography
- Internationally mobile client
 - Convenience of using a FFI for their global needs
 - Familiarity in providing multi currency facilities
- US person lives outside of the USA

Why are FFIs asking the questions they ask of clients?



-
- Regulatory requirements
 - Bank risk and compliance
 - Reputational and financial risk

Does Choice of Jurisdiction make a difference?



-
- Are some jurisdictions quicker at setting up accounts?
 - Generally no – the speed an account is set up is determined by:
 - The FFI's account opening process
 - The ability of the client to provide the FFI with the information they require. This is where the majority of the delays occur
 - Company set up – some jurisdictions have fast track procedures
 - e.g. Cayman, BVI, Guernsey can have a company formed in 1 day

Information requested by FFIs from clients

Why do they want to open the account ?

Information to identify client (name, address, DOB, contact details)

- Utility bill/bank statements to verify address
- Passport (certified true copy)

Family information (spouse, beneficiaries etc) - are there family issues – divorce etc

Reference letters (from bank and/or professional advisor)

Marital status

Citizenship

Residence

Tax ID number

Previous address if current address is new

Dependents

Employment details

Income

Net worth

How wealth was accumulated (together with corroboration)

Family members with connection to government ?

Where the assets are coming from

Value of assets

Confirmation on whether the client is a US tax payer

Treaty eligibility

Who their US agent is

W9/confirmation of tax status

Information requested by FFIs from clients

Additionally, for trusts and other fiduciary solutions:

- List of all beneficiaries: full name, DOB, nationality and residence
- Passports will be required from beneficiaries if they are to receive funds.

For companies:

- Memorandum and articles of association
- List of officers and directors
- List of shareholders
- Certificate of good standing if company is over 1 year old
- Financial statements

Source of funds

Crucial to ascertain source of funds

- What is the provenance/history of this wealth?
- Critical to ensure funds are the clients and not some other party's
- Challenges with emerging markets

How can source of funds be verified:

- Contract of sale of business or letter from attorney confirming involvement in sale of business together with details
- Media reports of event (sale of business/stock options etc)
- Copy of will
- Pay slips/tax returns
- Financial statements of business

What checks do FFI's do independently of their forms?

OFAC – Office of Foreign Asset Control has a Specially Designated Nationals List

- Searchable online database of individuals and organizations with whom US persons are prohibited from doing business with.

Third Party Database eg World Check

Internet Searches

- Google, Yahoo, Bing
- LinkedIn
- Google/Yahoo News

Compliance and Risk

- All new clients of a FFI will go through an FFI's internal compliance and risk groups.

Situations where enhanced due diligence (EDD) is or may be required

EDD

- A rigorous and robust process of investigation over and above (KYC) procedures

Ultra high net worth

- Especially from emerging markets – how did they amass such wealth in a short period of time?

Clients with connection to high risk jurisdictions

- FFIs risk rank countries and may have special requirements for dealing with clients located there

Politically Exposed Persons (PEPs)

PEPs

What is a PEP ?

- persons that hold or have held positions of public trust, such as federal, provincial or municipal government employees, appointees or officials, military commanders, judges, politicians, political party officials, political advisers and their families and close associates.

Why is special attention paid to this group ?

- Considered high risk clients
- Legal and reputational risks are increased with PEPs
- PEPs by virtue of their position are more susceptible to bribery/corruption/embezzlement

Consequences of PEP relationship going wrong

- Ruined reputation – not just for the FFI, but the banker and maybe PEP's advisors
- Fines/loss of client confidence/business failure

Making the process easier

Provide a full overview of client's situation to the FFI

- Who, what, why?
- Don't leave contacting the FFI to the last minute
- Set up time scales from the outset and allow room for delays

FFIs have dedicated professionals to help the process – use them

- They will guide you and your client through the process – they will make the process easier

Allow FFI direct access to the client – resist the urge to be gate keeper

- Avoids instructions or requests being “lost in translation”

Inform clients about the information that the FFI will ask for

- Make sure clients understand that the FFI will need the information requested
- Most delays occur when clients do not provide the information required in the format requested by FFIs
- Inform clients that the FFI may require additional information over and above what was initially requested

Summary

US Persons can open relationships with FFIs

- Choice is more limited in terms of providers and solutions
- Clients need to be transparent with FFIs and provide requested information

The future?

- More transparency and exchange of information
- More rules and regulations regarding citizens having accounts overseas
- Once FFIs see FATCA in action, those that decided to not to service US persons may start to once again provide solutions to them

Ask FFI how they are going to deal with FATCA

- For clients with existing FFI relationships – check how their FFI plans to deal with FATCA
 - Is your client at risk of being demarketed?
 - Are fees going to increase?
 - Are the range of services going to be reduced?

Disclaimer



Thank you. Do you have any questions?

Neither RBC Wealth Management nor its financial consultants are able to serve as trustee. RBC Wealth Management does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in connection with your independent tax or legal advisor.

Any reference to investment return is hypothetical and is used for illustrative purposes only. It should not be construed as a guarantee and may not be used to project or predict future investment results.

Financial forecasts are based on many assumptions including estimated expected return rates, taxes, inflation, earnings, spending, time periods as well as other factors and should be reviewed periodically.

This presentation has been prepared by Royal Bank of Canada on behalf of RBC® companies that comprise the RBC Wealth Management network. The services in this presentation may be provided by a variety of subsidiaries and offices, either independently or acting together.

Some of the services and products detailed in this presentation are not offered in all jurisdictions and may not be available to all potential clients. This presentation does not constitute an invitation to buy or the solicitation of an offer to sell securities or any other products or services in any jurisdiction to any person to whom it is unlawful to make such a solicitation in such jurisdiction. In particular, products and services that involve the transfer of currencies across national borders are necessarily subject to the foreign exchange and other laws of those jurisdictions, and will not be available where prohibited by such laws. Consult with your financial advisor before making your investment decisions.

This presentation is intended as general information only, and is not intended as taxation, legal, investment, or other professional advice. You should always obtain independent professional advice particular to your individual circumstances.

Royal Bank of Canada, its affiliates and subsidiaries, and their officers, directors, employees and agents, are not responsible for and will not be liable to you or anyone else for any damages whatsoever arising out of or in connection with your reliance on this presentation, even if Royal Bank of Canada, its affiliates and subsidiaries, or their officers, directors, employees or agents have been advised of the possibility of such damages.

Investment management products and services described in this presentation are not deposits (unless expressly stated otherwise), are not insured by the Federal Deposit Insurance Corporation or other similar institution, may lose value and contain no bank guarantee. Past performance is not a guide to future performance and any exposure to multiple currencies may cause additional fluctuation in the value of an investment.

Visit our web site: www.rbcwminternational.com

®Registered trademark of Royal Bank of Canada. ™Trademark of Royal Bank of Canada. Used under licence.