



Getting to grips with EUSD

It is possible to keep the cost and effort of compliance with the EU Savings Directive to a minimum, if the right approach is taken

With the new reporting regime for the European Union Savings Directive enforced on July 1 this year, UK private client investment managers (PCIMs) should be ensuring that their systems are now in order to comply. Set up to crack down on tax evasion on cross-border income from savings – because it is harder to track the financial movements of individuals between countries – the Directive requires wealth management firms to start collecting identification and residency data from clients on behalf of the Inland Revenue. The first savings income report will cover the period between July 1 2005 and April 5 2006.

With investment firms now required to submit reports on an annual basis to the Inland Revenue, the Directive should ensure that there is an automatic exchange of information relating to interest and income savings between EU member states, with all countries required to follow the same procedure, apart from Belgium, Luxembourg and Austria which will pay a withholding tax instead. The Directive doesn't affect companies with only UK clients, but for those that have overseas clients PCIMs are concerned about the compliance costs attached, and some smaller firms will undoubtedly decide that it may cost too much to keep particular clients. However, for the larger firms dealing with many overseas clients, a set of processes needs to be put into place immediately to ensure compliance is met.

It all sounds fairly simple in theory but there are complications that need to be addressed by the larger firms, before they can confidently integrate the Directive into their daily processes. The big issue is identifying the stocks that are relevant and are going to be reportable. Complications arise, for example, when the Directive includes reporting on collectives because it is unit trust managers, not PCIMs, that hold this level of information. This raises the question of where the responsibility lies for collecting and reporting the necessary data.

Within the Directive, it is those defined as paying agents – any economic operator who pays or secures the payment of interest for the immediate benefit of a beneficial owner – that are responsible for collecting the information. For some firms, as much as 70 per cent of their business deals in collectives and they need to be very

clear on what is reportable so that there is consistency across the industry – otherwise there is the danger of a piecemeal approach to complying with the Directive and this will lead to further problems down the line.

For those firms that must comply with the Directive, their first priority is to inform clients of the Directive and its requirements and look at how they can effectively gather the key information required. This is essentially "know your client" information, such as residency, birthplace and tax identification number and account number of the beneficial owner.

Firms also need to be looking at their systems to ensure that processes are automated wherever possible to store the necessary savings data on a day to day basis. This needs to be done without the need for manual intervention – more time on this means less time spent on client relationships. Investmaster believes that a system that links to both a firm's back and front office solutions makes the most practical and economic sense – an integrated system ensures a smooth flow of information and more streamlined processes, affording less risk to the business.

This information needs to be fed into a system that can automatically generate both the full information required to send to the Inland Revenue and also that required by the client, as part of their regular reporting pack. This is vital for firms to remain competitive and to achieve the level of transparency that clients now expect. Reporting has to include interest payment data including the amount of interest income earned, plus information regarding any proceeds from sale, redemption or refunds.

The EU Savings Directive is already in effect. Firms can ill afford to ignore it and get behind with collecting the necessary data to report to the Inland Revenue at the end of the first year. In an industry where compliance costs are mounting daily, it is understandable that firms are reticent about yet another Directive, but if approached sensibly, the effort required and financial costs can be kept to a minimum. A long-term view, with a focus on automating the processes involved, will prove to be a sound investment in terms of remaining compliant and ultimately lessening the risk to the business.

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