

**GLOBAL FORUM ON TRANSPARENCY  
AND EXCHANGE OF INFORMATION  
FOR TAX PURPOSES**

**AUTOMATIC EXCHANGE OF  
INFORMATION:  
A ROADMAP FOR DEVELOPING  
COUNTRY PARTICIPATION**

FINAL REPORT TO THE G20  
DEVELOPMENT WORKING GROUP  
5 AUGUST 2014

**G20** 

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## EXECUTIVE SUMMARY

### *Automatic Exchange of Information (AEOI) is necessary and beneficial:*

1. Tax is a critical source of development finance; however for developing countries, revenue mobilisation is comparatively low as a percentage of GDP compared to developed countries.<sup>1</sup> The problem of tax evasion in developing countries is therefore exacerbated, where evasion even by a wealthy few can have a comparatively large impact. The revenue needs of developing countries, in combination with the severity of corruption, tax evasion and fraud in many developing countries, highlight the importance of increasing global transparency concerning the location of untaxed wealth.
2. Exchange of information (EOI) for tax purposes is a valuable tool for enhancing global transparency and cooperation. The current international standard, exchange of information on request, allows tax administrations to request information from treaty partners if it is foreseeably relevant to a taxpayer's obligations. AEOI is a more proactive tool: it can inform countries of its residents' wealth that has been concealed offshore, undetected, and escaped tax. It simultaneously deters future non-compliance.
3. Global engagement in AEOI will contribute to the integrity of the international financial and tax system. It will also supplement exchange of information on request and complement other global transparency agendas such as anti-money laundering and anti-corruption.

### *A challenge:*

4. AEOI is broadly recognised to be a positive step for global transparency. Although support for AEOI is widespread, developing countries share a concern as to how to achieve practical implementation.
5. For successful implementation of AEOI, the requirements include knowledge, political will, information technology, human resources, legal frameworks, rigorous confidentiality and data protection safeguards<sup>2</sup> and resources dedicated to ensuring the information received is put to effective use. Many developing countries currently lack capacity in these areas, and are facing competing tax reform priorities.

### *The path forward:*

6. Developing countries should be encouraged to participate in the new global standard. However, support and time to build the required capacity is needed.
7. The Roadmap proposes a stepped approach to help developing countries transition to AEOI. It sets out a possible path for developing countries to take, as well as options for how the Global Forum and World Bank Group, as well as G20 countries, can support developing countries in their implementation of AEOI.

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<sup>1</sup> World Bank Group, 2013, *Financing for Development Post-2015*, Submission to the UN 6th High-Level Dialogue on Financing for Development, October 2013, p.9-10  
[http://www.un.org/esa/ffd/hld/HLD2013/WB\\_FfD.pdf](http://www.un.org/esa/ffd/hld/HLD2013/WB_FfD.pdf)

<sup>2</sup> If the sending jurisdiction applies strict data protection rules, it may require the receiving country to guarantee a similar high level of protection to the information received.

## INTRODUCTION

8. Automatic Exchange of Information (AEOI) is the routine and periodic transmission of information about non-resident persons, sent by the jurisdiction in which income or assets are located to the jurisdiction in which the person may owe tax. The exchange of information is automatic in that it occurs on a regular basis (e.g. annually) and the scope of the information to be reported has been agreed in advance, rather than being preceded by a specific request. The information may already be held by the tax administration, or be provided by third parties, such as financial institutions. It achieves a similar goal to the widely used practice of requiring employers to report to the tax administration in respect of the wages paid to their employees: it gives tax administrations a reliable source of information as to tax liabilities, without having to rely solely on a taxpayer to properly report all their income and assets. Other types of third party reporting are increasingly common in tax compliance management, such as on interest income in bank accounts and on social security payments.

9. AEOI has been widely used to date. For example, since 2005, European Union members have been automatically exchanging information on savings interest. In 2010, in response to the discovery of large sums of wealth concealed abroad, the United States enacted the Foreign Account Tax Compliance Act (FATCA), which requires financial institutions worldwide to automatically report financial information of US persons to the United States Internal Revenue Service, or otherwise be liable to 30% withholding on payments made by US persons. In April 2013, the Finance Ministers of France, Germany, Italy, Spain and the UK announced their intention to exchange FATCA-type information amongst themselves, in addition to exchanging information with the United States.

10. Political attention to the problem of untaxed wealth hidden abroad continues to grow, and the G20 Leaders at their meeting in St. Petersburg, Russia, in September 2013, fully endorsed an OECD proposal for a global model of automatic exchange and further invited the OECD, working with G20 countries, to present such a new single standard for automatic exchange of information. Recognising the importance of avoiding the proliferation of standards and reducing costs for engaging in AEOI, a new global standard was endorsed by the G20 Finance Ministers and Central Bank Governors in February 2014. This Standard for Automatic Exchange of Financial Account Information for Tax Purposes (“the Standard”) contains the Model Competent Authority Agreement and the common standard on reporting, due diligence and exchange of information (the Common Reporting Standard), the Commentaries thereon, and Annexes including the technical modalities and example questionnaire on confidentiality and proper use of information, published on the OECD website in July 2014. A globally applicable standard on automatic exchange complete with its Commentary is now available to all jurisdictions to use and implement. The G20 Leaders also mandated the Global Forum with the tasks of monitoring and reviewing the implementation of the new global standard, and helping developing countries identify their need for technical assistance and capacity building.

11. A group of 45 jurisdictions, the Early Adopters Group, have already publicly committed to a timetable for implementation of the Standard. These jurisdictions, which comprise a diverse range of large and small jurisdictions, have set an ambitious and achievable timetable for implementing the Standard, such that all required laws and processes would be in place in time for the first information exchanges to begin by September 2017. This date was deliberately chosen to make it achievable by a diverse range of jurisdictions and in order to fit with the expected timetables for information technology development. The timetable was also set in recognition that the Standard builds on FATCA, such that for jurisdictions that are implementing FATCA, the additional changes required to implement the Standard may be incremental rather than fundamental (depending on the particular model for FATCA implementation). Further, there are cost savings for Government and business from introducing the two together. An open invitation has been extended to all other jurisdictions, in particular financial centres, to join this timeline.

12. The context in which the Standard has been developed is the same as that which led to the creation of the Global Forum and its work on the current international standard of exchange of information (EOI) on Request: a recognition that in a globalised world, governments must cooperate to ensure that taxpayers pay the right amount of tax, at the right time. The importance of international cooperation on tax matters, and the possibility of a rapid move toward multilateral AEOI, was further underscored by the opening of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters for signature by all countries in June 2011.

13. The Standard is complementary to EOI on Request and is an important tool that takes advantage of technology to drive efficiencies in international tax cooperation. Requiring financial institutions to report annually on their customers' accounts enables tax administrations to detect otherwise unknown income and assets, reducing the need for the use of case-by-case and invasive information gathering, and simultaneously deterring future evasion. It may therefore be less time intensive than using EOI on Request alone, while also enabling more targeted information requests to be made in response to information obtained through AEOI. The two pillars of EOI, being on Request and AEOI, will therefore together help to redress the knowledge imbalance between taxpayers and tax administrations.

## PURPOSE OF THE ROADMAP

14. Recognising the importance of the Standard on AEOI, and the benefits it will generate for participants, the G20 leaders at their St Petersburg Summit called on the Development Working Group (DWG) in conjunction with the finance track, to work with the OECD, the Global Forum and other international organisations to develop a roadmap showing how developing countries can overcome obstacles to participation in the new Standard, and to assist them in meeting the Standard in accordance with the action envisaged in the St Petersburg Development Outlook.<sup>3</sup> The DWG has invited the Global Forum Secretariat to lead the development of the roadmap.

15. The roadmap focusses on the needs of developing countries, and low income countries in particular (see glossary). Although some developing countries may have signed an agreement with the United States to implement FATCA<sup>4</sup>, additional capacity building to implement the Standard may still be required on account of the differences between the two regimes.

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<sup>3</sup> The roadmap is prepared under the responsibility of the Global Forum Secretariat. It does not necessarily represent the views of member states.

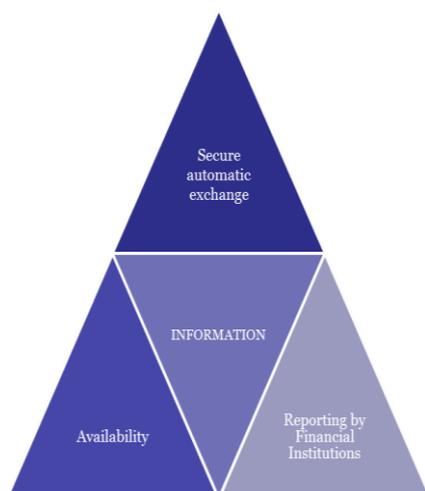
<sup>4</sup> Some developing countries have signed an agreement with the United States to implement FATCA. However, the Roadmap for implementing the Standard may still be relevant to them for two reasons. First, that signing a FATCA agreement is not necessarily indicative of an advanced stage of capacity. Second, that there may be substantial differences in terms of the scope and processes required to implement FATCA as compared with the Standard. For instance, some FATCA agreements provide only for sending information to the United States, which is done directly by the financial institutions. This will not translate into having the necessary capacity to implement the Standard, under which information is sent and received, and where information flows must pass through the tax administrations on both sides.

As at 4 August 2014, there are 45 countries that are on the DAC list that have signed or are treated in substance as having signed an intergovernmental agreement with the United States to send account

16. As noted by the G20 Finance Ministers and Central Bank Governors in their February 2014 communiqué, it is critical that all financial centres work towards implementing the Standard as a matter of urgency. This will ensure an international level playing field and the integrity and success of the global move toward the new Standard on AEOI. This is the case notwithstanding that some financial centres are also classified as developing or low income developing countries. While commitment to the Standard for financial centres cannot be conditional upon receiving technical assistance, the Global Forum will consider how it can assist developing countries with financial centres, which may need to be prioritised in order to facilitate their early implementation of the Standard.

17. This Roadmap describes the key concepts in the Standard, discusses the benefits and costs of the Standard for developing countries and the current state of readiness, and outlines the Roadmap's key principles. It then proposes possible steps to assist developing country participation in the Standard. A glossary and list of sources for the Roadmap can be found on pages 25 and 26.

## KEY CONCEPTS IN THE STANDARD



18. As depicted in the exchange of information triangle, the Standard is built on three key foundations: the availability of information; the reporting by financial institutions; and the secure automatic exchange of the information with treaty partners. The first two of these foundations are also highly relevant for domestic tax administration. The Standard draws extensively on FATCA and on existing anti-money laundering standards, and is designed such that the main burden relating to due diligence and reporting obligations falls on financial institutions rather than governments, all of which should assist in reducing the costs of implementation. Financial institutions will in many cases already be familiar with these obligations both through FATCA and their exposure to the Standard in other implementing jurisdictions where they have operations.

19. The Standard is designed to capture a broad range of financial institutions required to report, including not only traditional banks but also custodial institutions, certain insurance companies and investment vehicles. The Standard also captures a broad scope of customers about whom information will

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information to the United States pursuant to FATCA. Of these, 8 are G20 or OECD members; after excluding these, 12 are financial centres; therefore, there are 24 non-G20/OECD, non-financial centre developing countries (including those not yet members of the Global Forum) that have agreed to implement FATCA: Algeria, Armenia, Azerbaijan, Belarus, Cabo Verde, Colombia, Dominican Republic, Georgia, Guyana, Haiti, Honduras, Iraq, Jamaica, Kosovo, Moldova, Montenegro, Nicaragua, Paraguay, Peru, Serbia, Thailand, Turkmenistan, Ukraine, Uzbekistan. There are 104 developing countries listed on the DAC list that have not yet signed an agreement with the United States to send information pursuant to FATCA.

be reported, including individuals, entities, trusts and a requirement to look-through certain entities to report the beneficial owners. Further, the Standard captures a broad scope of financial account information on those customers, such as account balances and investment income.<sup>5</sup>

20. The Standard specifies the data structure and format the information must be in when exchanged by competent authorities, to ensure a uniform standard is used worldwide. It is possible for a jurisdiction to require its reporting financial institutions to format the data in the manner prescribed by the Standard, and send the data to the tax administration in separate files or bundles organised according to the jurisdiction that will ultimately receive the data.<sup>6</sup> This would relieve the tax administration of the obligation to format and sort the information itself. The tax administration would perform the relatively simple task of checking accuracy of the information and forwarding it on to treaty partners.

## IMPLEMENTING THE STANDARD

21. Implementing the Standard involves the following four foundational steps, which can be done in any order or in parallel.

22. First, translating the reporting and due diligence requirements into domestic law. Jurisdictions will need to put rules in place that require financial institutions to report information and follow due diligence procedures that are consistent with the Standard. The required reporting and due diligence procedures (which are very similar to those under FATCA) are described in detail in the Standard, and can be used as a template for formulating domestic rules.

23. Second, selecting a legal basis for the exchange of information. Many jurisdictions already have legal instruments in place that permit automatic exchange under the standard, including bilateral double tax treaties and the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. At the administrative level, automatic exchanges typically require separate agreements between competent authorities of participating jurisdictions to activate and “operationalise” the automatic exchange. These agreements specify the information to be exchanged and deal with practical issues such as the time and format of the exchange. The Standard already contains standardised Model Competent Authority Agreements (both bilateral and multilateral) that can be used for exchanges under the Standard.

24. Third, putting in place the administrative and information technology infrastructure to collect and exchange information under the Standard. The Standard includes a transmission format to be used for exchanging the information, which is virtually identical to the structure and content for FATCA. Both schemas have been developed in close co-operation with financial institutions, many of which are now familiar with their content and operation. Jurisdictions will also need to agree on effective transmission

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<sup>5</sup> This means that where a developing country has no institutions that qualify as financial institutions, or where a financial institution has no foreign resident customers, no reporting would be required. The jurisdiction would still be entitled to receive information from its treaty partners, subject to meeting all necessary requirements including confidentiality and data protection.

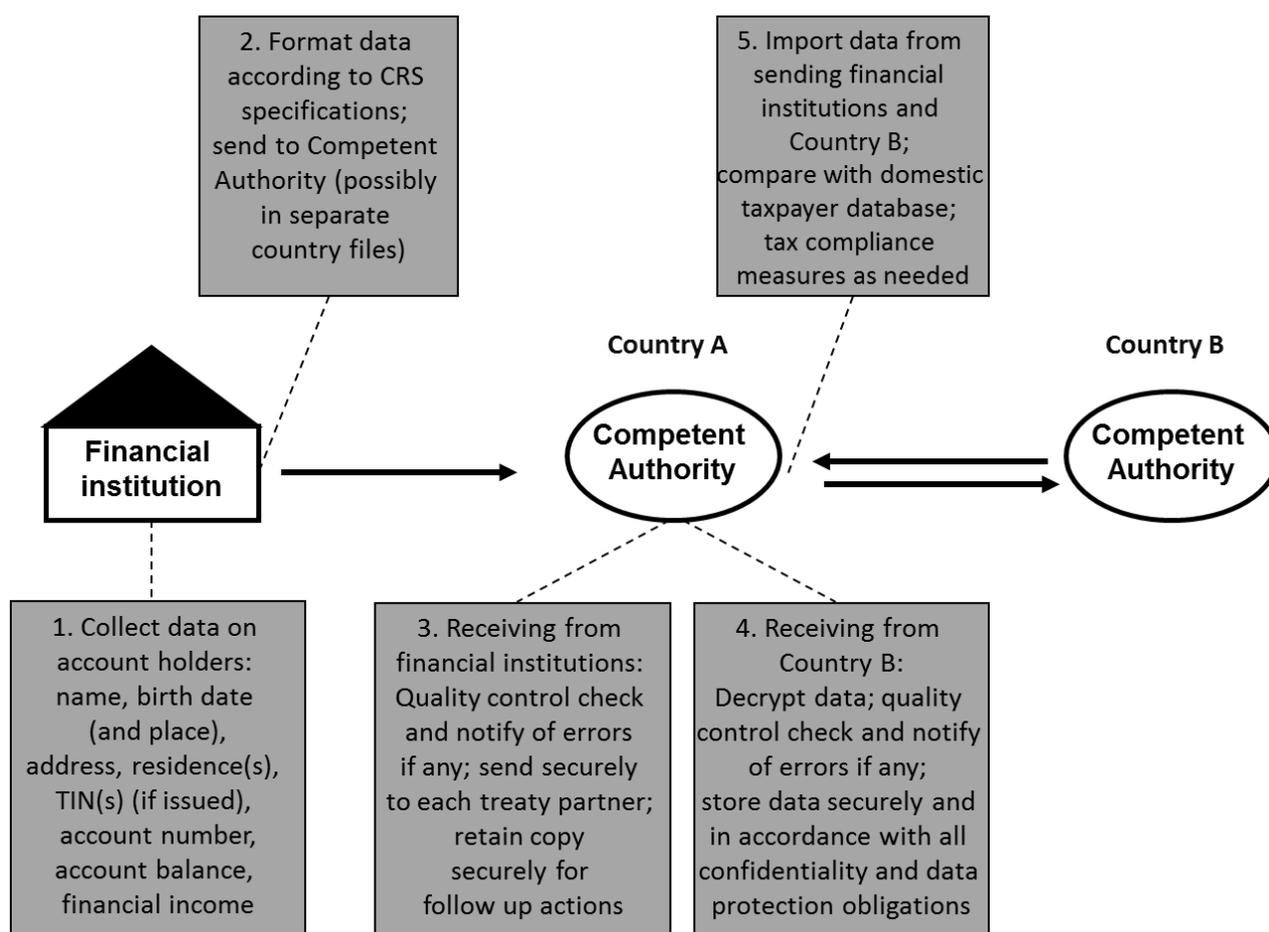
<sup>6</sup> Financial institutions may undertake these formatting obligation in connection with FATCA. The Standard data format very closely follows the FATCA format. Where this is the case, allocating these obligations to financial institutions for the Standard should in many cases not be difficult.

methods and encryption standards for the secure exchange of information. The Standard provides minimum standards for the secure transmission of information under the Standard, but does not mandate a single solution. Work is ongoing in some jurisdictions to create solutions for data transmission.

25. Fourth, protecting confidentiality and data safeguards. The Standard contains detailed rules on confidentiality and data safeguards which need to be in place both on a legal and operational level. The Standard also includes an example questionnaire that can be used by jurisdictions to identify areas in which they will need to make improvements.

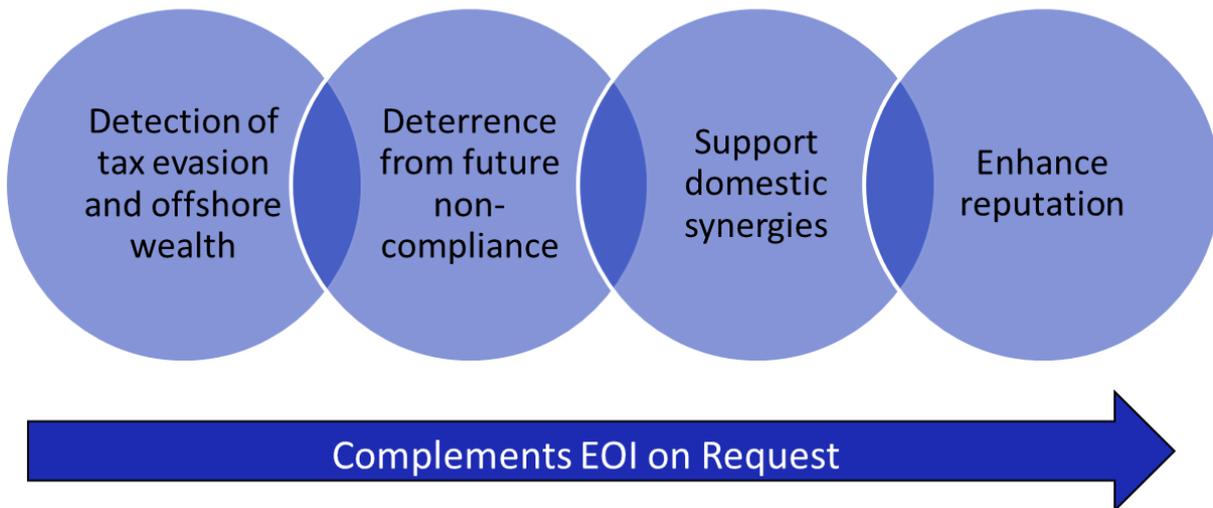
### KEY PROCESSES UNDER THE STANDARD

26. The following diagram illustrates the general information processes under the Standard in a relatively simple manner from the perspective of a developing country competent authority which is both sending information to its treaty partners and receiving data from them.



## BENEFITS OF AEOI FOR DEVELOPING COUNTRIES

27. There are four key benefits of AEOI for developing countries:



### *Detection of tax evasion and offshore wealth*

28. Detection of tax evasion is critical for developing countries in particular: US\$8.5 trillion of household assets are held abroad. In 2012, more than 25% of all Latin American and almost 33% of all Middle Eastern and African household wealth was held abroad compared to the worldwide average of 6%<sup>7</sup>. Estimates of tax revenue and illicit financial flows lost by developing countries generally range in the hundreds of billions of US dollars per year, exceeding the amount of official development assistance.

29. AEOI can alert tax administrations to tax evasion that was previously unknown and unknowable, potentially raising substantial revenue. AEOI may also assist in de-politicizing compliance actions taken against high profile individuals, as the source of information is external to the domestic tax administration. Unlike EOI on Request which requires substantial efforts on the part of tax administrations to investigate cases and establish foreseeable relevance in each case in order to obtain information, AEOI can achieve efficiencies in information gathering for tax administrations. This is one reason that AEOI can be suitable for developing countries which face capacity constraints.

### *Deterrence from future non-compliance*

30. AEOI should deter tax evasion and encourage timely compliance by taxpayers, where taxpayers are aware that financial institutions will report directly to the tax administration. Many Global Forum members reported this as a key benefit of AEOI and evidence supports this conclusion. For example, in Denmark, a 2010 study found that tax evasion occurred only in 0.3% of cases where income was subject to third-party reporting, but in 37% cases for self-reported income. In the US, 99% compliance was achieved

<sup>7</sup> Boston Consulting Group (BCG) 2013, *Global Wealth 2013, Maintaining Momentum in a Complex World* <http://www.bcg.de/documents/file135355.pdf>

for individuals whose income was reported to the tax administration by financial institutions whereas misreporting by individuals was found in 56% of cases in which there was little or no third party reporting.

### *Support domestic synergies*

31. The Standard relies on financial institutions to report information to the tax administration. In this sense, it is an extension of a growing trend among tax administrations around the world to use third party information reporting to assist with tax compliance. The implementation of the Standard may provide an opportunity for tax administrations to enhance domestic compliance. That is, a jurisdiction may choose to design its implementing legislation to require that financial institutions report information on both domestic and foreign residents (and this may in fact be a simpler process for financial institutions to manage), thereby enhancing the breadth of information automatically available to the tax administration. Capacity building efforts in tax administration modernisation may be helpful to assist developing countries in designing the requisite systems to enable the use of information received both from domestic and international sources in their tax compliance efforts.

32. As the Standard builds on anti-money laundering frameworks, implementing the Standard is an opportunity to strengthen and improve these practices, assisting with the detection of illicit activities. Furthermore, improved performance of the tax administration and anti-money laundering institutions in turn builds morale amongst citizens and complements other state-building efforts.

### *Enhance reputation*

33. It is clear that the G20 sees AEOI as the new global standard with which jurisdictions should comply as part of their responsibilities towards the global financial system. Participating in the Standard demonstrates a continuing commitment to transparency and to tackling tax evasion and the flow of illicit funds. It is concrete evidence of a jurisdiction's commitment to improving both domestic and international tax compliance, and indicative of the quality and capacity of its institutions. Further, participating in AEOI will require regular exchanges, and the building of wide networks of co-operation between tax administrations, in a way that EOI on Request may not (for example, where certain jurisdictions rarely receive or send requests).

## **COSTS OF AEOI**

34. The cost implications of the Standard will vary for each country, depending on the current state of readiness, as well as the scope of information exchange and receipts likely to occur. Costs are imposed both on the financial institutions, which provide the information to be exchanged, and the tax administration which verifies and transmits the information to treaty partners as well as manages and uses the information received from treaty partners. A survey undertaken by the Global Forum (responses from 100 jurisdictions to date) indicated overwhelmingly that information technology investment was expected to be the most costly aspect of AEOI for a tax administration, followed by human resources. However, specific costs for implementing the Standard may be lower if undertaken in coordination with FATCA implementation and other reform efforts. For example, legislative changes and information technology systems could be undertaken at one time rather than in separate processes. In addition, as legislation and technological tools are created by developed countries over the next few years, it is likely that these will be

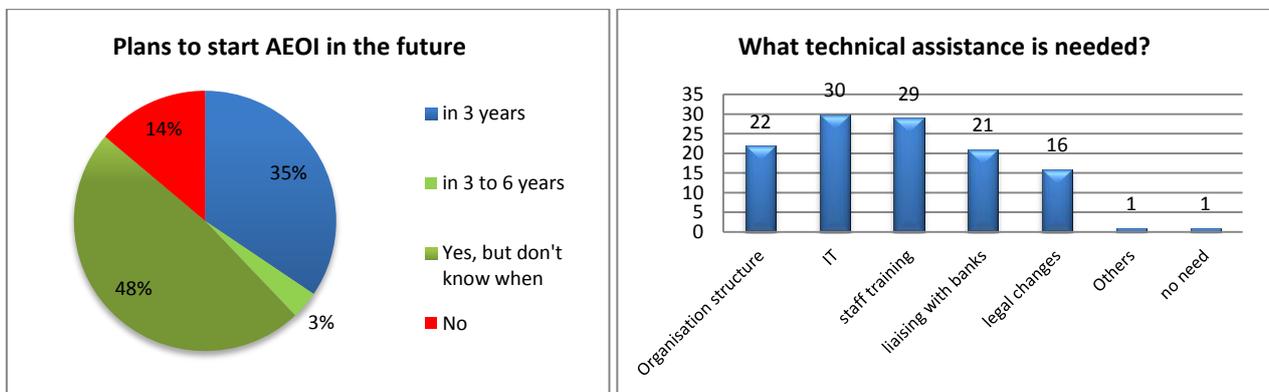
able to be leveraged as templates for developing countries, substantially reducing the costs and difficulty of implementation.

*Cost considerations in implementing the Standard*

<b>Government Cost Factors</b>	<b>Financial Institution Cost Factors</b>
Existence of legal mechanisms for international exchange of information	Connection with multinational group allowing replication of existing systems in branches / subsidiaries in developing countries
Existence of legal mechanisms to access and exchange information held by financial institutions	Extent to which customer records are already maintained in electronic form
Degree of skilled personnel in tax administration	Extent to which customer records are centralised or fragmented within the financial institution
Current use of information technology in tax administration	Degree of sophistication of existing customer due diligence
Existence and accuracy of electronic domestic taxpayer database to enable high degree of matching of data	Existence of information communication processes for domestic reporting to the tax administration
The scope of partner jurisdictions with which Standard will be conducted	Scope of reportable accounts within a jurisdiction
Current confidentiality and data protection measures (legal, information technology and human resources)	Current confidentiality and data protection measures (legal, information technology and human resources)
Amount of information to be received	

## AEOI READINESS IN DEVELOPING COUNTRIES

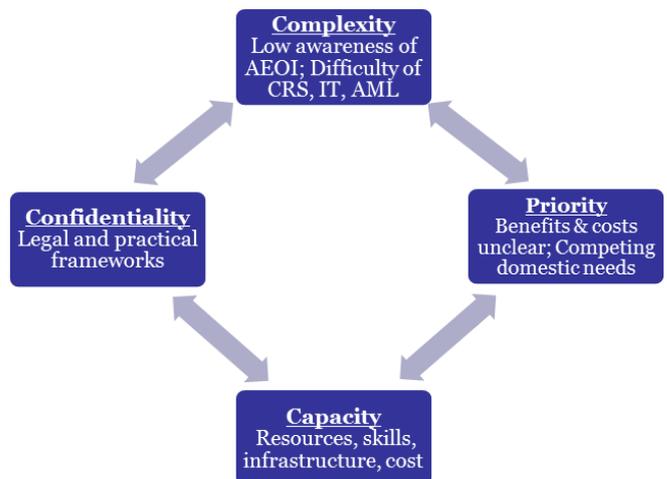
35. Many developing countries are not currently in a position to benefit from AEOI. Examining responses of developing countries (excluding for this purpose G20, OECD and Early Adopters) to a Global Forum survey indicates that only 3 developing countries are currently sending information automatically, compared to 50 developed countries. The survey also revealed that 17 developing countries had received information automatically, although in general they considered it to be less useful as compared to developed countries, largely on account of limited capacity to match and use the information received. The following two charts display aggregate results of developing country inputs on the current status of readiness for AEOI (either FATCA or the Standard).



36. The World Bank Group reported on the key challenges faced by developing countries in implementing AEOI: the urgency of other basic domestic reforms; high costs of information technology infrastructure; human resources needs for analysing and using received data efficiently; difficulty of making legislative changes; and limited awareness of exchange of information practices (especially amongst low income countries, many of which are not Global Forum members and have not yet committed to or been assisted in meeting the standard on EOI on Request).

37. A further consideration in assessing the readiness of developing countries for implementing AEOI is how the legal and practical frameworks will ensure that confidentiality and data protection standards are met. Specific capacity building and training will be required in this area.

38. These interrelated challenges can be expressed in the adjoining diagram. The steps proposed in the Roadmap seek to address each of these issues.



## THE ROADMAP: KEY PRINCIPLES

*“Information is a very powerful and very useful tool, but it is not by itself; its improvement must be fully integrated into the overall tax administration strategy. The technology alone will not solve the Tax Administration’s difficulties if it does not fit into the Tax Administration’s goals for reforming tax procedures to be simplified and streamlined before properly computerizing them.”*

*(CIAT, 2013)*

39. Four key principles apply to understanding, and implementing, the Roadmap:

- ***A tailor made approach:*** each jurisdiction is starting from a different place. Levels of experience in EOI on Request, adequacy of legal frameworks, quality of information technology systems and resourcing of staff vary greatly and will affect the feasibility, pathway and timing for progression to implementing the Standard. Although this roadmap identifies the building blocks, each jurisdiction will need its own architect.
- ***Achieving domestic synergies:*** Participation in the Standard should be considered as part of a process that is complementary to long term domestic resource mobilisation and capacity building efforts. This will help to ensure that developing countries are able to benefit from the end result of the Roadmap (implementation of the Standard), and from the domestic synergies generated along the way. For example, given that the Standard builds on the skills needed for effective tax administration (such as managing information flows, detecting risks, conducting audits, leveraging international cooperation), simultaneous efforts to improve these skills and systems should also be considered.
- ***Allowing sufficient time:*** Recognising the substantial capacity building required, and the need for tailoring programs to each domestic context, time and appropriate support will be required for developing countries. It will not only be a matter of creating the necessary infrastructure, but of ensuring that information is handled in accordance with international standards, and used effectively to generate the intended benefits. A hasty implementation of the Standard without building appropriate foundations risks the loss of support for the endeavour as expectations are not met. For these reasons, a progressive implementation approach is proposed in the Roadmap.
- ***Advancing towards a truly global system:*** As noted in the introduction, the timely participation of financial centres in the Standard is critical to ensure a level playing field. Capacity building in developing countries which are also financial centres should be undertaken as a priority, although a commitment to implement the Standard cannot be conditional on this.

## THE ROADMAP: A STEPPED APPROACH

40. A stepped approach is proposed for enabling developing country participation in the Standard. This is considered from three perspectives: the steps developing countries may consider taking; the steps that the Global Forum, with support from international organisations such as the World Bank Group, may consider taking; and the steps that G20 members and other developed countries may consider taking to assist developing countries in building their capacity. The steps to be taken by the different stakeholders will overlap and be potentially inter-dependent. Co-ordination of these activities and the dissemination of knowledge should be ensured, as discussed on page 24.

Roadmap steps		
<b>Steps for developing countries:</b> <ul style="list-style-type: none"> <li>• Global Forum membership</li> <li>• Political support</li> <li>• Volunteer for pilot project</li> <li>• Developing building blocks</li> <li>• Implementation and peer review</li> </ul>	<b>Steps for Global Forum:</b> <ul style="list-style-type: none"> <li>• Awareness building</li> <li>• Develop tools and resource materials (and partnering with others that could assist e.g. World Bank Group)</li> <li>• Pilot Project(s) (and partnering with others that could assist e.g. World Bank Group)</li> <li>• Monitor and review implementation of the Standard</li> </ul>	<b>Steps for G20 and other developed countries:</b> <ul style="list-style-type: none"> <li>• Encourage Global Forum membership</li> <li>• Raise awareness in region</li> <li>• Partner to provide data</li> <li>• Partner to provide knowledge / funding</li> <li>• Support pilot project(s)</li> </ul>
Dissemination of feedback and insights through GF AEIOI Group and G20 DWG		

## STEPS FOR DEVELOPING COUNTRIES

### *Becoming a Global Forum member*

41. The purpose of this step is to achieve 3 goals. First, to ensure effective implementation of the standard of EOI on Request, including through participating in the peer review process. Second, to build

exchange of information treaty networks, including the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. Third, to benefit from AEOI pilot projects.

42. Joining the Global Forum and committing to the standard of EOI on Request benefits developing countries, both in itself and in connection with implementing the Standard. First, EOI on Request offers not just the possibility of obtaining information on the foreign business activities of domestic taxpayers, but also improving domestic tax compliance by ensuring the information needed to enforce domestic laws is available and accessible. Committing to the standard may also assist in securing additional donor funding from international organisations for public finance and governance reforms. Second, improving the legal frameworks regarding availability and access to information, and compliance with standards on confidentiality are crucial building blocks for AEOI, and undertaking training and peer review on these issues will assist in preparation for the Standard. Further, as implementing the Standard is likely to cause an increase in the number of EOI requests, especially in the early years, as previously unknown wealth is uncovered, Global Forum capacity building in EOI on Request will be critical to ensuring developing countries can benefit from receiving the information sent by treaty partners under the Standard.

43. Membership is open to all jurisdictions by sending an expression of interest to the Global Forum Secretariat. All Global Forum members are entitled to participate in decision-making on an equal footing, to obtain technical assistance, to be peer reviewed and to participate in reviews of other jurisdictions and to join the working group on AEOI.<sup>8</sup> Membership of the Global Forum carries with it the obligation to commit to implement the standard on EOI on Request, to participate and contribute to the peer review process and to contribute to the Global Forum budget (the annual fee is currently either flat (EUR 15 300) or progressive for countries whose GNP is above USD 35 billion).<sup>9</sup>

### *Building political support*

44. A crucial step for implementation of the Standard to be successful and sustainable is to obtain high level political support to make the required changes. Without this, it will be difficult for the necessary changes to be made in an efficient manner.

### *Volunteer for pilot project*

45. All developing countries that are Global Forum members are invited to volunteer to participate in a pilot project (described further below and at Annex One). Following any expressions of interest, and in consultation with the World Bank Group, the Global Forum Secretariat will identify potential pilot country participants, taking into account the potential benefits for participants, the availability of relevant exchangeable information, confidentiality and data protection issues, and the existence of political commitment to the project. A pilot project would be designed in close consultation with the developing country and the developed country participants to ensure that the country's specific needs are taken into account.

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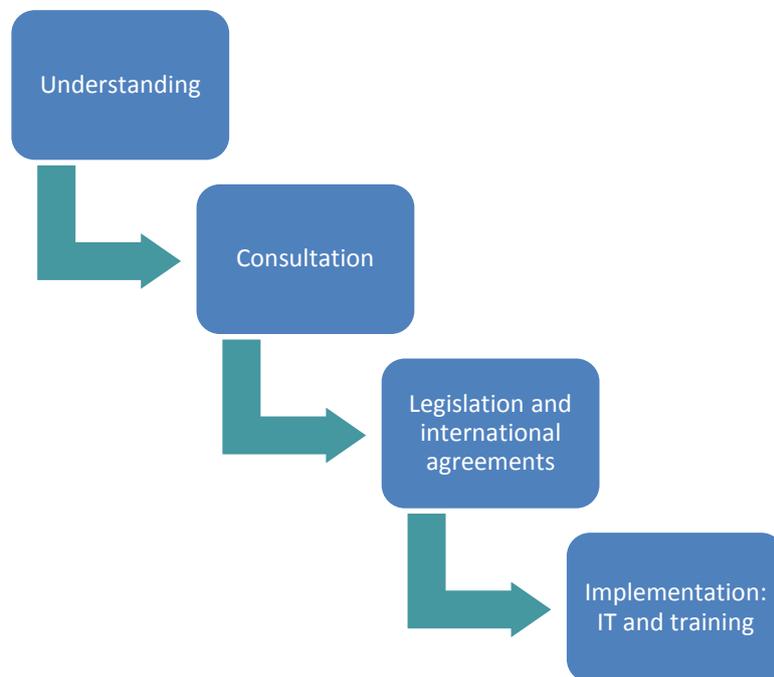
<sup>8</sup> In 2013, the Global Forum formed a voluntary working group on AEOI, currently comprising 56 member jurisdictions and 3 international organisations, including a number of developing countries and the World Bank Group. This group will take forward the work mandated to the Global Forum by the G20, being to liaise with the OECD on the development of the Standard, to establish a mechanism to monitor and review the implementation of the Standard, and to help developing countries identify their need for technical assistance and capacity building.

<sup>9</sup> See [www.oecd.org/tax/transparency](http://www.oecd.org/tax/transparency) for more information or contact [gftaxcooperation@oecd.org](mailto:gftaxcooperation@oecd.org)

### *Developing building blocks*

46. The purpose is to build capacity for the Standard in ways that are consistent with domestic revenue mobilisation needs and other tax administration reforms. This section sets out a series of steps that a developing country choosing to commence implementation of the Standard could follow over time, as appropriate with regard to resources and competing priorities. In considering the implementation of these steps in practice, each country would likely need to consider three things. First, that the burden on the tax administration should be minimised, and the cost-benefit ratio optimised, where possible. Second, that where a particular process will be used to comply with FATCA and would also be usable for the Standard, duplication of processes should be avoided. Third, that the changes made to implement the Standard should be flexible enough to accommodate the expansion of the treaty network to include additional treaty partners.

### *Progressive steps to implementation*



47. **Understanding:** The first step in implementing the Standard must be to ensure that the Standard, its context and its purpose, are understood in detail. The Commentaries on the Standard are very helpful in this regard and should be consulted carefully. Reference to the implementing legislation and guidance produced by other jurisdictions is also likely to be helpful. Additional support in this regard will become available through the resource materials that the Global Forum will develop and through opportunities for G20 members to share their own expertise (see below). It will be important that a range of government officials undertake this learning, including the tax administration, anti-money laundering authority, relevant Ministry officials and financial services supervisory authorities as well as the relevant information technology staff that will assist in building the necessary systems.

48. **Consultation** with the financial industry must also occur. It is important that this occurs at an early stage in the process, to ensure that all relevant financial institutions can timely understand their obligations, that they can commence preparations to collect the required customer data, that legislative changes will be effective, and that where possible the relevant processes and systems can be designed to minimise the burden on these institutions. Consultation may occur in several stages as necessary implementation plans become more detailed, and could include a combination of consultation papers as

well as face to face meetings. It may also be relevant to consult with the legal and accountancy professions. Consultation could address:

- introduction to the Standard, including the context and basic processes;
- the application of the Standard to the domestic financial institutions and financial products (including whether there are any local specificities in the financial industry that should be excluded from the Standard);
- whether existing customer due diligence obligations must be changed to meet the Standard;
- the interaction with implementation of FATCA (if present);
- reporting and information transmission methods (including use of the Standard schema and encryption);
- possible compliance costs; and
- achievable timeframes.

49. The legal framework will also need to be revised. This may include both international agreements as well as domestic laws.

50. *International agreements* may already be in place in connection with meeting the standard on EOI on Request. Existing Double Tax Conventions based on the OECD Model Tax Convention or the UN Model Tax Convention would include Article 26, which governs exchange of information generally and permits AEOI. In addition, the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, which currently covers 79 jurisdictions, also permits AEOI. Given the large and growing number of jurisdictions covered by this agreement, becoming a party can assist in quickly building a broad treaty network covering a range of international cooperation mechanisms for tax purposes, and for developing countries may be a more efficient path than separately negotiating bilateral treaties. However, a relatively small number of developing countries have signed the Multilateral Convention to date. The Global Forum is able to assist in providing guidance on the requirements for becoming a party. Though Tax Information Exchange Agreements based on the OECD Model generally do not permit AEOI, regional multilateral treaties and directives may allow for this.

51. The relevant international agreement must be supported by a Competent Authority Agreement. This agreement operationalises the automatic exchange, by setting out the practical details for the information transmissions. This may be bilateral or multilateral, and a model of each has been developed by the OECD and annexed to the Standard Commentary. One such multilateral agreement is to be signed at the Global Forum plenary in October 2014, and all Global Forum members have been invited to join in signing this.<sup>10</sup>

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<sup>10</sup> A jurisdiction may sign this multilateral Competent Authority Agreement even where it has not yet ratified the Multilateral Convention (provided it has at least signed a letter of intent to do so). The multilateral Competent Authority Agreement enters into force bilaterally at the point at which two signatories have both implemented the necessary laws, specified their required data transmission methods, met the required confidentiality and data protection standards and specified that they wish to exchange with the other. The multilateral competent authority agreement to be signed in October 2014 will be administered by the co-

52. The *domestic legal framework* may require significant amendments. This may cover the following areas:

Collecting information	Effective implementation	Confidentiality and safeguards
<ul style="list-style-type: none"> <li>• Define scope of reporting financial institutions and financial accounts</li> <li>• Customer due diligence</li> <li>• Reporting to tax authority</li> <li>• Regulations and guidance to assist</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring</li> <li>• Enforcement and sanctions</li> <li>• Updates to legislation / regulations to address changes and loopholes</li> </ul>	<ul style="list-style-type: none"> <li>• Information kept confidential</li> <li>• Proper use</li> <li>• Interaction with data protection and privacy laws</li> <li>• Monitoring</li> <li>• Enforcement and sanctions</li> </ul>

53. Some aspects of the above may already be in place. For example, customer due diligence obligations may already be in place under anti-money laundering laws; however, changes may be required to meet the Standard (in particular, the ongoing due diligence obligations, the obligation to collect a customer’s foreign taxpayer identification number and the obligation to look through to identify beneficial owners of certain entities and arrangements). Legislation to govern the confidentiality, data protection and proper use of information obtained by the tax administration from treaty partners may already exist in connection with meeting the standard on EOI on Request, although given the high volumes of sensitive data that will be exchanged under the Standard, these may require reconsideration.

54. Where the legal framework permits, it may be practicable to structure the legal changes by introducing broad legislation in simple terms, requiring that financial institutions conduct due diligence on all non-resident customers and report this information to the tax administration in accordance with the Standard. The Standard could be then incorporated by reference or annexation. The conferral of the necessary authority on the relevant government agency to create more detailed rules in subsidiary legislation should be considered, particularly given the detailed nature of the due diligence procedures and the scope of financial institutions required to report. Practical written guidance may also be necessary to assist financial institutions with their reporting requirements, including the technical specifications for reporting. As all jurisdictions will be implementing the same Standard, it may be useful for developing countries to have reference to legislation, regulations and guidance drafted by other jurisdictions as an example.

55. *Technology and systems* will be used to give effect to the Standard. It is critical to contextualise these as tools and solutions that can only assist with achieving the proper functioning of the Standard. They are not the end in themselves, and must be accompanied by thorough training and be used within a jurisdiction’s overall tax compliance strategy. See Annex Two for more detailed description of the technology requirements for implementing the Standard.

56. Policies, technology and procedures to manage *confidentiality and data protection* are critical. This includes technological tools (e.g. to securely encrypt and decrypt data, restrict access to stored data to

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ordinating body for the Multilateral Convention on Mutual Administrative Assistance in Tax matters, which is within the OECD.

authorised persons only, to create audit trails so that access to data can be monitored), as well as physical security of data and systems. In addition, training and supervision of staff to create a culture of care and compliance, and procedures to swiftly attend to any breaches of information security will be required. A questionnaire on information security is annexed to the Standard Commentary, and will be very helpful for jurisdictions to understand the requirements. Best practices in this area will become clearer and be widely disseminated as many jurisdictions will implement the Standard.

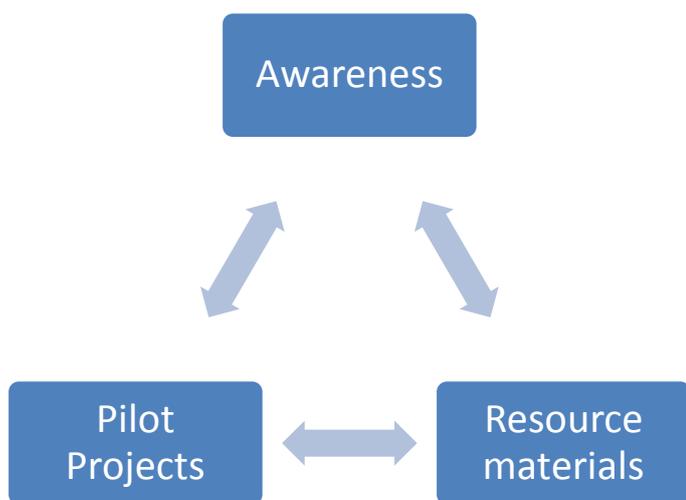
57. **Training of staff** and new procedures will be required to operate the Standard systems, including with regard to the receipt of information from financial institutions, processes for verification of completeness of data and quality control, collation and sending to treaty partners, following up on any errors in the data sent, receiving data from treaty partners, managing the confidentiality and data protection obligations, importing received data for tax compliance purposes and conducting monitoring and enforcement of financial institutions to ensure compliance with obligations.

### *Information exchanges and peer review*

58. Following successful completion of testing procedures, there would be additional steps to take in order for automatic exchanges to occur with treaty partners. These would be set out in the relevant Competent Authority Agreements.

59. The Global Forum has been tasked with developing a mechanism for monitoring and reviewing implementation of the Standard. This will likely commence in 2016 for a desktop review of legal frameworks that are expected to be in place by then, and from 2019 at the earliest for a review of practical implementation. It is possible that specific pre-peer review training programs will be developed by the Global Forum, particularly to assist developing countries in preparing for their peer reviews. The results of these peer reviews will be available publicly, and can be used to assist jurisdictions to improve their legal and practical frameworks in accordance with best practice.

## STEPS FOR THE GLOBAL FORUM



60. There are three main tasks which the Global Forum (partnering with other international and regional organisations such as the World Bank Group) can do: build awareness, develop resources and conduct pilot projects. As experience is increased, each of these tasks would in turn better inform the other.

### *Awareness*

61. As the results of the Global Forum survey and other consultations demonstrate, the awareness of the new Standard on AEOI and its benefits amongst developing countries is quite low. Although awareness of FATCA is higher, knowledge of the steps required to implement the necessary processes remains limited in many places.

62. One key mandate given by the Global Forum to its AEOI Group is to increase awareness of the new Standard and its benefits for developing countries. This will be achieved through the encouragement of more developing countries to participate in the AEOI Group, through the reporting by the AEOI Group to the Global Forum plenary on its activities, and through the annual Competent Authority meetings, which allow the sharing of experience and training opportunities directly between tax officials.

### *Resource materials*

63. In conjunction with the OECD's Centre for Tax Policy and Administration, the Global Forum will be developing resource materials for jurisdictions to assist them in understanding the Standard. These will be disseminated to members, through international organisations and regional tax administration forums, and available online. This may also include specific training courses and the sharing of lessons learned from conducting pilot projects. In addition, as has been the case for EOI on Request, the Global Forum can provide advisory services, to advise on draft legislation and best practices. In due course, the conduct of peer reviews will also be a resource that can be used by other jurisdictions in creating their own legal and practical frameworks. It is also envisaged that AEOI Group members could share their own resource materials with the Global Forum for wider distribution.

64. The sharing of resource materials will occur at least in part through the Global Forum's Technical Assistance Platform, which will allow for the online sharing of resource materials by various agencies and jurisdictions, including knowledge products and online training modules specific to AEOI. It will also allow improved communication of the assistance projects being undertaken by various agencies, which will enable better coordination to maximise the complementarity of these projects where possible. This will be particularly relevant in considering how and whether other tax reform capacity building projects ought to be linked with progression towards AEOI.

### *Pilot Project(s)*

65. The purpose of a pilot project would be:

- To benefit the developing country pilot participant(s). This will occur by achieving actual automatic exchanges of information in a resource efficient manner and by demonstrating the domestic resource mobilisation implications of AEOI; and
- To identify the most efficient and effective methods to implement the Standard. This will in turn inform other capacity building projects on AEOI, and increase the awareness and prioritisation of AEOI in the broader developing country context.

66. Recognising that full implementation of the Standard by a developing country with existing capacity constraints may take additional time, the pilot projects would focus on a progressive approach to implementation. It would commence with identifying the most feasible and beneficial element(s) of the Standard to implement and undertaking implementation of that element or those elements. This could require a country which is more experienced in implementing the Standard or other automatic exchange of information to volunteer to partner with the pilot participant, in order to test the actual exchange mechanisms, possibly on a temporary non-reciprocal basis. Accordingly, an incidental objective of the project would be to raise awareness amongst developed countries as to how they can support developing countries in their progressive implementation of the Standard.

67. The pilot project could occur in the following steps:

1. nomination of participants;

2. initial feasibility study;
3. preparation of action plan;
4. implementation of action plan;
5. feedback.

68. An invitation to participate in a pilot project has been sent to a number of developing country Global Forum members. Selection of pilot participants will be considered in consultation with the World Bank Group and other interested partners, and the G20 DWG, and all necessary legal authority and confidentiality and data protection requirements must be met before any information exchange could occur. See Annex One for detailed pilot project outline.

69. Recognising that full implementation of the Standard by a developing country with existing capacity constraints may take additional time, the pilot project would focus on a progressive approach to implementation, with key milestones along the way. The subsequent steps and milestones would be designed to ensure progression to full implementation of the Standard in an efficient and timely manner. Following successful completion of the first milestones of the initial pilot project, the lessons learned could then be applied in other developing countries.

70. A much broader pilot project could also be undertaken, aimed at enhancing tax administration modernisation and domestic resource mobilisation reform. Such a project would ordinarily be led by the World Bank Group or IMF or other regional development banks, but could be designed to include a component addressing implementation of the Standard in partnership with the Global Forum. The results of assessments to be performed by the IMF in connection with TADAT (Tax Administration Diagnostic Assessment Tool) or other assessments such as the World Bank Group's IAMTAX, may be a useful way of identifying countries for which such a project would be beneficial, and / or for monitoring the results of a broader pilot project.

## **STEPS FOR THE G20 AND OTHER DEVELOPED COUNTRIES**

71. There are several different ways that the G20 and other developed countries could support developing countries in making progress to implement the Standard.

### ***Support Global Forum membership and signature of the Multilateral Convention***

72. In its communications and publications relating to tax, the G20 could consider adding encouragement to all jurisdictions to join the Global Forum if they have not already done so. The G20 could also consider reiterating its encouragement for all jurisdictions to join the Multilateral Convention.

### ***Raise awareness in region***

73. As each G20 member will have a particular sphere of influence, it may have unique opportunities to contribute to awareness raising. This may include creating awareness through regional forums, encouraging regional developing countries to engage with the Global Forum to seek information and

assistance, sharing evidence on the benefits it has derived from AEOI, as well as sharing aggregate data and in kind assistance as discussed below.

### *Partner to provide aggregate data*

74. To date, many countries have spontaneously shared aggregate data with their treaty partners on various types of income, such as the existence and amount of foreign owned accounts in their jurisdiction. G20 and other developed countries may consider spontaneously sharing aggregate data with a specific developing country. The purpose of this would be to build awareness of AEOI, to demonstrate possible revenue benefits and increase the prioritisation of AEOI, and to obtain political commitment to AEOI.

75. The disclosure of aggregate data would be voluntary and only proceed where the sending country already had legal authority to spontaneously share this data. The G20 (or other) country would take all necessary steps to obtain comfort that the recipient would adhere to standards on confidentiality and data protection.

76. The nature of the aggregate data could be selected on the basis of information that is already held by the tax administration, rather than requiring additional collection and reporting by financial institutions.

**Example:** Australia informs Developing Country X that there are 50 depository accounts with total value of USD 40 million located in Australian banks that belong to Country X residents. These statistics may be sent securely, such as on an encrypted CD (or could be made public at Australia's election). The disclosure would not be required to be ongoing, but may be a single instance, or repeated over a specified number of years.

77. G20 or other countries could also choose to spontaneously share more than the aggregate data with a selected developing country. As a voluntary project, this would remain subject to the G20 member or other country being satisfied as to the legal basis for such an exchange as well as that the confidentiality and data protection standards are being adhered to.

**Example:** Australia could identify the 50 highest value depository accounts held in Australia by developing country X residents. It could then securely transmit the detailed account information to Country X, notwithstanding that Country X was not yet in a position to send the equivalent information in return. This would allow Country X to undertake tax compliance efforts. This would have the benefit of quickly impacting tax revenue and thereby demonstrating the benefits of automatic exchange of financial account information.<sup>11</sup>

### *Partner to provide knowledge / funding*

78. G20 and other developed countries will be more advanced in their preparations for implementing the Standard. As such, they will have experience in how to prepare legislation and guidance, have learned from conducting their own industry consultations, will have developed best practices concerning confidentiality, data protection and technological solutions, and they will have trained staff. There is great scope for the sharing of this knowledge, given that the Standard is a uniform standard that will be

<sup>11</sup> This would address two interesting issues raised through the Global Forum's consultation process. First, that developing countries were often unaware and / or unconvinced as to the benefits of AEOI without there being detailed evidence of the revenue that had been raised in other countries to date. Second, that almost 70% of respondents to the Global Forum survey on AEOI indicated a willingness to send, or consider sending, data to a developing country without receiving the same.

implemented worldwide. G20 countries may consider the possibility of deploying resources, technology packages and temporarily seconding staff to a developing country tax administration that is implementing the Standard.

### *Support pilot project(s)*

79. There are several ways that G20 and other developed countries could support the pilot project. This includes:

- Volunteer to participate as a partner in the pilot project. This could include progressive periods of sending limited information to, and / or receiving limited information from, a developing country participant. The pilot project outline notes that this would occur over a time-limited period, in order to assist the developing country build its experience and capacity as it progresses toward full implementation of the Standard.
- Volunteer to provide financial support.
- Support and contribute to related capacity building efforts, including broader tax administration modernisation reforms and improvements in tax compliance management. This will be important to ensure that developing country pilot participants are enabled to effectively use information received and to streamline overall processes. Many G20 members have been providing tax related development co-operation to developing countries to date, and the co-ordination of these efforts will be of assistance in undertaking pilot projects and supporting developing countries going forward.

## IMPLEMENTING THE ROADMAP

80. This roadmap is necessarily focussed on general themes and challenges, and is to be used as a baseline for further work. Throughout the process of explaining and implementing the roadmap, it will be important to build consensus around developing country participation in the Standard. G20 commitments to capacity building will be essential to elicit engagement from developing countries. In addition, the successful implementation of the roadmap is likely to be enhanced where the support and assistance of international organisations and regional bodies is obtained. This includes, in particular, development banks and regional tax administration forums, which have specialised insights into the needs of different jurisdictions. It will also be important to secure support from regional leaders amongst jurisdictions that are implementing the Standard and may be able to offer guidance and support to regional developing countries.

81. Given the different, but complementary, steps that are proposed in the Roadmap to be taken by different jurisdictions and organisations, it will be important to ensure that constructive sharing of knowledge can occur. It is envisaged that this will occur chiefly through the Global Forum in a number of ways:

- Pilot project design will include a final stage of reflection to ensure that all future pilot project designs can be refined to account for lessons learned.
- Feedback on results of pilot projects would be shared with the Global Forum AEOI Group in depth, as well as reported to the Global Forum plenary.
- Regular reports will continue to be made to the G20 DWG, including on technical assistance activities.
- Resources developed could be shared with other organisations and jurisdictions through the Global Forum's online Technical Assistance Platform.

82. The next steps to implement the Roadmap are:



## GLOSSARY

- **Anti-Money Laundering or AML.** The international standards on anti-money laundering measures are set by the Financial Action Task Force (FATF). The Standard relies on customer due diligence standards set by FATF (as revised in 2012). That is, the information exchanged in the Standard is obtained through financial institutions completing their customer due diligence requirements.
- **Developing country:** The OECD Development Assistance Committee produces a list of developing countries eligible to receive official development assistance, which is updated every three years. The data used for compilation of this list is based on the World Bank Group criterion for classifying economies, on the basis of estimated gross national income per capita. Each jurisdiction is classified as low income, lower middle income, upper middle income or high income. Developing countries generally refers to those in low income, lower middle income, or upper middle income groups. The current list was last revised for 2012 – 2013. As country circumstances change, the composition of this list will change over time. However, in general terms it should be possible to identify developing countries that do not have financial centres and that should be afforded additional time in committing to the Standard.
- **Early Adopters:** A group of jurisdictions that have committed to implementing the Standard, with the first exchange of information to take place by the end of September 2017. Further details can be obtained at <http://www.oecd.org/tax/transparency/AEOIjointstatement.pdf>.
- **FATCA:** Foreign Account Tax Compliance Act. This is United States legislation for international automatic exchange of information. The Standard has drawn heavily from the Model 1 Inter-Governmental Agreement for implementing FATCA.
- **Financial centre:** Though it may be difficult to find a precise definition of a financial centre, an intrinsic feature of these centres is that they provide financial and other services such as trust and company management, with a particular focus on non-residents, and usually make a conscious effort to attract this business. However, this may not capture all financial centres which could pose a challenge to the achievement of a level playing field for AEOI purposes. The Global Forum could also consider the possibility of including other jurisdictions in a similar manner to EOI on Request by identifying “jurisdictions of relevance” to the Global Forum’s work.

## SOURCES AND INPUTS FOR THE ROADMAP

### *Consultation*

- Regional consultations with developing countries in Asia, Latin America and Francophone Africa (44 developing country jurisdictions in total)
- Meetings and discussions with international organizations, civil society and business (including Commonwealth Secretariat, Asian Development Bank, CIAT, European Commission, CARICOM)
- One-to-one discussions with other jurisdictions
- Written submissions from NGOs and a consultation event held in Paris in May 2014

### *Survey*

- Responses received from 100 jurisdictions, including 37 developing countries (developing countries defined to exclude those that are also G20 members, EU members, or Early Adopters). Of these 37, 9 were not Global Forum members
- Survey addressed benefits, costs, technical assistance, plans to engage in AEOI, domestic reporting by financial institutions, use of Taxpayer Identification Numbers, legal basis for AEOI and issue of reciprocity

### *Research and experience*

- Research papers on the requirements for AEOI, comparative analyses of tax administrations, domestic resource mobilisation, and general and tax specific capacity challenges in developing countries were consulted
- The experience and insights of the World Bank Group has been drawn on heavily in this report, as well as the input of the OECD Centre for Tax Policy and Administration
- The Global Forum's experience in conducting peer reviews and providing technical assistance was drawn on in considering the capacity challenges for international information exchange
- The inputs from the Global Forum AEOI Group (which includes 56 member jurisdictions and 3 international organisations)
- The Global Forum's experience in conducting a pilot project on the Standard with the Seychelles in June 2014

## ANNEX ONE: GLOBAL FORUM PILOT PROJECT OUTLINE

### *Introduction*

1. Following calls from the G20, the OECD (through its Working Party 10 of the Committee on Fiscal Affairs and working with G20 countries) has developed a globally applicable standard for automatic exchange of information (AEOI) for tax purposes (“the Standard”). The Standard, including its commentaries and technical modalities, was published by the OECD in July 2014.

2. This followed the G20 Leaders’ official commitment to AEOI as the new global tax information exchange standard, in St Petersburg 2013. At that meeting, the G20 leaders further called on the Development Working Group (DWG) in conjunction with the finance track, to work with the OECD, the Global Forum and other international organisations to develop a Roadmap showing how developing countries can overcome obstacles to participation in the emerging new standard in AEOI, and to assist them in meeting the standard in accordance with the action envisaged in the St Petersburg Development Outlook.

3. The Roadmap will be presented at the September 2014 meeting of the DWG. The Roadmap identifies the context in which the new Standard has arisen, its relevance for developing countries, and the building blocks required to implement the Standard. It proposes that pilot project(s) be undertaken with developing country participant(s), in order to assess how implementation could be achieved in an efficient manner. The following is an outline of the pilot project objectives, methodology and timeline. G20 DWG members, and other developed countries, are invited to consider how they could support the project(s).

### *Pilot Project Objectives*

4. The pilot project has two broad objectives:

1. To benefit the developing country pilot participant(s). This will occur by achieving actual automatic exchanges of information in a resource efficient manner and by demonstrating the domestic resource mobilisation implications of AEOI; and
2. To identify efficient and effective methods to implement the Standard. This will in turn inform other capacity building projects on AEOI, and increase the awareness and prioritisation of AEOI in the developing country context.

5. Recognising that full implementation of the Standard by a developing country with existing capacity constraints may take additional time, the pilot project would focus on a progressive approach to implementation, with key milestones along the way. It would commence with a feasibility assessment to identify the most effective pathway towards full implementation, potentially commencing with implementation of certain discrete element(s) of the Standard. The subsequent steps would be designed to ensure progression to full implementation of the Standard in an efficient and timely manner.

6. Each progressive additional step would build on the experience gained and feedback received from the prior steps. This would require a country which is more experienced in implementing the Standard (or other automatic exchange of information) to partner with the pilot participant, in order to test the actual exchange mechanisms. Accordingly, an incidental objective of the project would be to raise awareness amongst developed countries as to how they can support developing countries in their progressive implementation of the Standard.

7. Following successful completion of the first milestones of the initial pilot project, similar projects could be developed, drawing on lessons learned.

### *Pilot Project Methodology*

8. The pilot project would occur in the following steps: (1) selection of participants; (2) initial feasibility study; (3) preparation of action plan; (4) implementation of action plan; (5) feedback. The action plan would have key reporting dates and milestones built into it, to be followed during implementation.

#### *Step 1: Selection of pilot participants*

9. An invitation to participate in a pilot project has been sent to developing countries<sup>12</sup> by the Chair of the Global Forum in a letter describing the developments in AEOI to date and explaining the benefits of participation. A letter has also be sent to Global Forum members that are developed countries to consider how they might support developing countries, including by supporting progressive phased implementation of the Standard. Following any expressions of interest, and in consultation with the World Bank Group, the Global Forum Secretariat will identify potential pilot project participants.<sup>13</sup> In selecting pilot project participants, the issue of confidentiality and proper use of data will be of great importance. Other relevant considerations may include the following (although they will not necessarily be determinative of participation).

Considerations for selecting developing country include:	Considerations for selecting partner include:
Global Forum member and developing country (non-financial centre)	Global Forum member
High level political commitment to the Standard and the pilot project over the long term	Relevant information exists for sending to developing country
Commitment to eventual full implementation of the Standard when the necessary capacity is built	Commitment to, and substantial progress made in, implementing the Standard to enable future mentoring
Knowledge of exchange of information on request	Regional or economic link with developing country preferable
Relevant information exists for sending to developed country	
Assessment of legal framework and practical implementation of confidentiality obligations, drawing on security modalities questionnaire annexed to the Standard	

<sup>12</sup> For this purpose, developing countries refers to are taken to be countries which, as per the OECD Development Assistance Committee, are in the list of countries and territories eligible to receive official development assistance. Developing countries that are already committed to the Standard, or that have international financial centres, are expected to commit to full implementation of the Standard in the shorter term.

<sup>13</sup> Depending on the starting point of a pilot country, a longer project may be appropriate (for example, to include broader tax administration and modernisation reforms). This would require the involvement of the World Bank Group or other development agencies, with an AEOI component in the project.

Where possible, other tax administration modernisation or tax compliance improvement reforms planned or in progress; or other complementary projects underway including reform of anti-money laundering rules by World Bank Group, IMF or others	
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*Step 2: Initial feasibility assessment*

10. The initial study would assess current capacity in order to identify the most effective pathway towards full implementation of the Standard. Relevant capacity includes the legal framework governing the availability and access to information by the tax administration; the type and sophistication of the financial industry; the availability of information held by financial institutions through anti-money laundering obligations or other law; the existence of current reporting by financial institutions to the tax administration; and the experience of tax administration with schema and secure transmission methods. The study would be designed in partnership with both the developing and developed country pilot participants in order to give in depth consideration to which areas of capacity building in the tax administration must be addressed in order to fully implement the Standard. The study would be assessed by a questionnaire to the developing country pilot, by follow up questions and, if necessary, by on-site mission.

11. The conclusion of the feasibility study may be that a particular sequence of progressive steps toward full implementation of the Standard would be appropriate and of most immediate benefit for the developing country participant.<sup>14</sup> For example, whether individually or in combination, this could include temporary partial and / or non-reciprocal exchange of certain sub-sets of information to be exchanged under the Standard, such as:

- sending information relating only to new individual accounts (not pre-existing individuals and not entities);
- sending information relating to new individual and new entity accounts (however, entities are likely to be more complicated with regard to look-through of passive non-financial entities);
- sending information held by depositary financial institutions (not other financial institutions covered by the Standard);
- receiving information on individuals only;
- receiving information on entities only;
- receiving information from depositary financial institutions only (or other type of institution as relevant for the pilot country).

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<sup>14</sup> For example, a group of 45 jurisdictions known as the Early Adopters Group has agreed a sequencing of exchanges, starting with exchanges of information on new accounts and pre-existing individual high value accounts, followed one year later by exchanges of information about pre-existing individual low value accounts and entity accounts.

### *Step 3: Prepare action plan*

12. The action plan will describe next steps required to be taken to achieve implementation of the pathway identified in the feasibility study. The action plan will be prepared in close partnership with the developing country, to ensure that implementation is tailored to local needs and abilities and in order to ensure ownership of the project over the long term. The action will include:

- development of a consultation plan for engaging with industry and other stakeholders;
- required legal changes;
- guidance to be issued governing the procedures and timing for data collection;
- technological changes;
- confidentiality and data safeguard requirements;
- a testing period;
- transmission of information;
- feedback.

13. The action plan will include a suggested implementation timeline for each of the above action items, and the pilot country would report on progress at each planned milestone. To the greatest extent possible, the action plan should be designed to make full implementation of the Standard as seamless as possible. In particular, legal changes, technological changes and confidentiality requirements should be implemented in a way that would not require further changes over time in order to achieve full implementation of the Standard. The Global Forum will report back to the G20 Development Working Group after the action plan has been developed.

### *Step 4: Implement action plan*

14. Where appropriate, each milestone of the action plan could be reviewed by the Global Forum and / or the developed country participant for any required improvements or advice. The Global Forum will report to the G20 Development Working Group on progress of the pilot after the completion of each milestone. The implementation of the first milestones in the action plan should be achieved in as short a time as possible, to enable the dissemination of results to occur quickly.

### *Step 5: Feedback*

15. Feedback will be sought informally from both pilot participants throughout the process, to ensure that each step is meeting objectives and expectations. Specific feedback will be sought from both pilot country participants following the transmission of information. This will include the identification of any errors, difficulties encountered throughout the entire information flow (from financial institutions to final recipient), reflections on confidentiality procedures, and, where the developing country has received information, reflections on the usefulness of that information.

16. The Secretariat will also work with the developing country pilot participant to develop two short reports on the pilot project; one as a mid-term review and the other at the completion of the pilot. These will include whether objectives were met, whether the design of the feasibility study should be changed,

whether different types of implementation support should be sought, and whether other factors are relevant in considering future pilot participants.

17. These reports would be used in the design of future pilot projects, and reported to Global Forum members, as well as being shared with the World Bank Group and the G20 Development Working Group. Lessons learned would also be shared with other donor and development organisations, regional tax administration bodies and potentially through the Global Forum Technical Assistance Platform.

### *Projected Timeline*

Action item	Timing
Selection of pilot countries	July – August 2014
Feasibility study commenced	November – February 2014
Action plan provided	March – April 2015

18. The timing for implementation of the individual steps and milestones of the pilot will be determined by the results of the feasibility study and the design of the action plan.

### *Interaction with G20 DRM Workstream and next steps*

19. In connection with the pilot project, G20 DWG members and other developed countries are invited to consider:

- whether they could participate as a partner participant to send and / or receive limited information from the developing country participant;
- whether they could support a pilot project financially;
- whether they could support and contribute to related capacity building efforts, including broader tax administration modernisation reforms, improvements in tax compliance management, and strengthening of anti-money laundering practices. This would assist the developing country pilot participant to more effectively use information received and to streamline overall processes.

## ANNEX TWO: INFORMATION TECHNOLOGY ASPECTS OF IMPLEMENTATION

1. Two information technology processes occur to effect the transmission process for information exchanged under the Standard: a transmission channel between the domestic financial institutions and the tax administration and a transmission channel between the tax administration and its other treaty partners.
2. Transmission in both cases can occur by way of secure file transfer protocol, which automatically encrypts, transfers and notifies the status of the transmission. This is generally used by more advanced countries as it is easy to use, although it requires an initial information technology specialist to install and maintain. Alternatively, transmission can occur through an internet browser, with the use of simple software to achieve the required encryption and decryption. This is easier to install and maintain for countries with low capacity, although it may require that encryption and decryption be performed manually. Solutions are currently being developed within developed countries to allow for a central data exchange service that could be used by any country, ideally for both FATCA and the Standard.
3. Relatively simple software can be deployed to convert data that is received in the Standard schema into readable files. This can be done using a spreadsheet, although it is not recommended for handling large volumes of data as is envisaged under the Standard as it is more difficult to edit, save and use the data. A database would be created to store the data exchanged with financial institutions and with treaty partners for the purpose of keeping a secure record and to allow for following up on errors. A template storage database could be developed and easily re-deployed to several jurisdictions.
4. Although not required by the Standard, to allow efficient benefits to be obtained from automatic exchange, such storage database could be linked to, or directly imported into, the domestic taxpayer database. However, any interaction with an existing domestic database would require a custom built design. Where a developing country does not yet have a domestic taxpayer database, implementation of the Standard is an opportunity to create one to assist with domestic compliance efforts and in a manner that maximises functionality with the Standard. An initial design of a domestic database with the function to import data from automatic exchanges “from scratch” could then be re-used as a template in other developing countries which did not yet have a domestic database.
5. Depending on the volume of data received, and the completeness of a domestic taxpayer database, the matching of Standard data may require additional capacity building and tools. As noted by the World Bank Group, if data cannot readily be matched with domestic records, the usefulness of automatic exchange of information is significantly inhibited.
6. For this reason, the importance of creating an accurate database including information on all residents must be emphasised. For example, where a large number of residents are not registered for tax purposes, or where a systematised format for reporting of the name and address of residents is not in place, it will be difficult, if not impossible, to benefit from the information received. Where a Taxpayer Identification Number (TIN) is used, this can greatly enhance the efficiency of data matching.
7. In addition, although domestic reporting by financial institutions can be built in to the implementation process to enhance domestic synergies, where many residents do not use the formal financial institutions, this will be of limited use for domestic purposes. Capacity building should therefore also be integrated with capacity building projects undertaken by other agencies to enhance the information management systems within revenue administrations, including the improvement of the domestic taxpayer database and the ability to use risk assessments to target taxpayers for follow up compliance actions.