

UPDATE

CRS comprehensive reviews in the Cayman Islands – How to get ahead

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The Cayman Islands' Department for International Tax Cooperation (DITC) has announced that they will shortly commence conducting CRS comprehensive reviews. This update considers how Cayman Islands financial institutions can prepare themselves and guard against enforcement action.

Background

The Global Forum on Transparency and Exchange of Information for Tax Purposes (the **Global Forum**) published a Peer Review of the Automatic Exchange of Financial Account Information¹ in November 2022, relating to the effectiveness in practice of the implementation of the OECD's² Common Reporting Standard (CRS). One of the common issues identified by that Peer Review for participating jurisdictions related to the ability to enforce the CRS. In particular, the Peer Review noted that limited activities had been undertaken in certain participating jurisdictions to ensure that the information reported under the CRS is complete and accurate.

CRS Peer Reviews are an ongoing process, with the Cayman Islands expecting to hear the results of their review in the latter end of 2025. Accordingly, the need for information reported to the Cayman Islands' Tax Information Authority (the **TIA**) to be complete and accurate is an ongoing priority. Following the adoption of the CRS Enforcement Guidelines in March 2022, Cayman Islands financial institutions (**FIs**), including investment funds and their service providers, have experienced an increase in enquiries, warnings, breach notices and enforcement notices issued by the TIA in this regard.

Comprehensive reviews

At two recent industry events, the DITC announced that they will shortly commence a programme of comprehensive reviews which will involve testing compliance by Cayman Islands FIs with their CRS obligations. These comprehensive reviews will be similar to an onsite inspection or audit and are expected to commence in November 2024. Cayman Islands FIs should therefore now take the opportunity to review their systems and processes in relation to the CRS.

The areas of concern that the DITC will scrutinise will likely include:

- *Governance*: identifying documentation evidencing the implementation of the CRS obligations, including gaining an understanding of all parties and service providers involved. For example, to ensure that there are appropriate policies and procedures to collect and carry out the required due diligence procedures on, and report the data required under, the CRS.
- *Classifications*: obtaining a list of account holders to ensure all reportable account holders and non-reportable account holders are correctly classified as such.
- *Data quality*: reviewing policies, controls, underlying documentation, self-certifications and financial statements with the aim of ensuring the reporting of accurate and complete data.

¹ Available [here](#).

² The Organisation for Economic Co-operation and Development.

The DITC have confirmed that FIs will be selected for review both as a result of internal risk assessment and also a randomised sample. Once selected, the principal point of contact will receive an initiation letter, containing a request for high-level information which may include documents such as the financial statements and investors lists. During this initial phase, should any issues be identified by the FI, there may be an opportunity to make a voluntary disclosure (which may put the FI in a more favourable position in regard to potential penalty exposure) although this is not yet clear. Once the DITC has reviewed the initial information, the DITC will arrange a meeting (either onsite or via video conference) between the DITC and all relevant parties that participate in carrying out the CRS obligations. This could include, for example, the administrator, the AEOI service provider, the investment manager, the directors etc.

On completion, the DITC will require remediation of any deficiencies identified and will consider whether any offence has been committed under the CRS Regulations.³ The DITC currently expects these reviews to take 4-6 months in total.

Failure to respond to the DITC, if a comprehensive review is commenced, is likely to result in the imposition of an administrative penalty.

How can we help?

Mourant has a team of regulatory specialists and consultants who can review your policies and procedures, data collection and reporting, and assist with any notice of inspection or breach or enforcement notices received from the DITC in relation to the CRS. The Mourant team are also well placed to assist with any pre-audit review of CRS systems and processes.

For assistance, reach out to your usual Mourant contact or one of the named contacts below.

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³ The Tax Information Authority (International Tax Compliance) (Common Reporting Standard) Regulations (2021 Revision).