



TaxNewsFlash

Canada

FI — Meet Your CRS & FATCA Self-Certification Requirements

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Financial institutions (FIs) should ensure that they have properly implemented processes to collect and validate self-certifications from account holders. The CRA is anticipated to commence audit activities to ensure that FIs are complying with the Common Reporting Standard (CRS) and the Foreign Account Tax Compliance Act (FATCA). The CRA is looking to assess whether FIs have timely obtained self-certifications that establish whether an account holder is reportable under the CRS and FATCA, among other obligations. Although the CRA has indicated that it may provide relief in limited situations, FIs that do not obtain a valid self-certification as required may be subject to significant penalties. In some cases, these penalties may be material to audited financial statements.

Background

Under Canada's FATCA and CRS regimes, affected FIs are generally required to identify accounts held by tax residents of jurisdictions outside of Canada (including persons with dual or multiple tax residency) and report specific information relating to these accounts directly to the CRA each year. This information can include account balances and certain amounts paid or credited to the account, including interest, dividends, and proceeds from the sale of financial assets.

As part of CRS and FATCA due diligence procedures, FIs must obtain a self-certification to establish whether an account holder is reportable under either regime. A self-certification provides key information about the account holder, including identification details and tax residency.

In 2020, the CRA revised its guidance to provide specific penalties where self-certifications are not collected and validated on a timely basis (among other guidelines).

The CRA has indicated that it will assess these penalties effective January 1, 2021. For details, see *TaxNewsFlash-Canada* 2020-45, "[FIs — Ensure Self-Certifications Meet CRS & FATCA Rules](#)".

Earlier this year, the CRA published several revised versions of its FATCA/CRS self-certifications. The CRA is next expected to release updated versions of both the FATCA and CRS guidance.

Significant CRA penalties may apply

FIs that are not meeting the self-certification requirements under the CRS and FATCA regimes may now be subject to CRA penalties. Specifically, affected FIs may be liable to penalties of up to \$2,500 per account, per regime. These penalties may apply regardless of whether FIs' accounts are reportable under either the CRS or FATCA regime.

The CRA may provide discretionary penalty relief based on remediation efforts. The CRA has said it will consider, among other things, whether FIs have implemented "strong measures" to ensure valid self-certifications are obtained, which may include freezing or closing accounts.

Action required

FIs affected by these requirements should identify and address any potential implementation gaps in the collection and validation of self-certifications, particularly for new account onboarding, and existing account changes.

In addition, FIs should identify accounts involving multiple FIs in order to ensure that the appropriate party has properly obtained self-certifications from the account holders. Impacted accounts include client name accounts that are maintained by a dealer and a fund manager. In this case, processes should be implemented to timely communicate whether a valid self-certification is obtained when required. The CRA has indicated that it will apply separate penalties to a dealer and a fund manager, even though a fund manager commonly relies on the dealer to obtain and validate the self-certifications. This communication should be timely, should be performed on an account-by-account basis, and should include all accounts (not merely reportable accounts).

We can help

Canadian FIs should ensure that their due diligence and reporting procedures are in compliance with the CRS and FATCA rules. Please reach out to your local KPMG tax advisor for additional assistance.

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