**The CRS and automatic information exchange: why we also need corporate and trust registries too**

The OECD's Common Reporting Standard (CRS) is the new global standard for automatic information exchange, now in the process of being rolled out.

The CRS will significantly tighten up on global financial secrecy.

But it won't catch it all: it contains many loopholes and exceptions which will prevent many countries from getting all (and in some cases any) of the relevant bank account and financial information they need.

Registries on beneficial ownership of assets[1] are an essential second line of defence, without which we will have to simply trust bankers to record the details properly – and bankers will have to trust their clients to tell them the truth. What is more, registries will fill in many of the geographical gaps and exemptions that the CRS won't cover. This will be especially important for catching the big fish.

Here are some more reasons why.

Most sophisticated tax evaders and money launderers do not have bank accounts (or financial investments) under their own name, but rather hold them indirectly via layers of entities and arrangemnets (shell companies, trusts, private foundations, etc.) incorporated in many different jurisdictions.

Will the CRS require banks to "look through" (i.e. look inside) any entity or arrangement (such as a shell company or a trust) that holds a bank account and automatically identify the real person (potential tax dodger) hiding behind it?

No, it won't.

For example, the CRS rules say that if such entity is considered "Active" (called "*Active Non-Financial Entity,* or *Active NFE* to use the CRS' jargon), there will be no "look-through" and it will be impossible to know the warm-blooded owners behind it – unless, that is, that Active entity is incorporated in a jurisdiction that has a Registry of beneficial ownership and gives access to this information.

This begs the question of what an "Active" (that is, opaque) entity is.

Active entities are opaque as long as they show that they are (or appear to be) either

(i) operating a business (so most of their income and assets are related to an active

[1] Registries on beneficial ownership information need to cover legal entities such as companies, partnerships, or foundations; and legal arrangements such as trusts.

business such as selling products, providing services, etc.) or

(ii) in special cases, such as being a start-up company; a non-profit entity (such as a charity or religious entity); a government entity; or a publicly traded entity. The latter three in particular can be problematic if they relate to tax havens with poor control and regulations. In other words, if any tax evader (indirectly) holds a bank account via an entity considered "Active", and this entity is incorporated in a tax haven or any place without a Registry of Beneficial Ownership, it will be impossible to find out who is hiding behind it.

Even when the entity is not "Active" there will still be problems. Where an entity holding a bank account is considered "Passive" (called Passive NFE in CRS' terms: for example because most of its income or assets involve 'passive' income such as dividends, interests, rents, royalties, etc.) then financial institutions will have to "look through" them to identify the person hiding behind it, called the "controlling person" (which is the CRS' term for "beneficial owner"). In the best case scenario, banks will need to ask the account holder (the entity): "who is your controlling person (hiding behind you)"? But how will banks corroborate and confirm the answer without a Register of Beneficial Ownership to cross-check the information? They will simply have to believe the account holder.