

By Electronic Delivery

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RE: TRACE Should Be Included in AEOI

Dear Bob and Danielle:

The Investment Company Institute (ICI)¹ and ICI Global,² on behalf of mutual fund investors around the world, urge you to support our request that the Treaty Relief And Compliance Enhancement (TRACE) implementation package³ be included in any multilateral automatic exchange of information (AEOI)⁴ initiative. The TRACE project, as you know, was undertaken by the Organisation for Economic Co-operation and Development (OECD) with strong support from the United States, other OECD member countries, and financial services industries.⁵

Both governments and business would benefit substantially from the enhanced procedures for cross-border-investor tax relief that would be provided by TRACE. At-source tax relief and simplified procedures for providing governments with necessary assurances that tax relief claims are

¹ The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$15.3 trillion and serve more than 90 million shareholders.

² ICI Global is the global association of regulated funds publicly offered to investors in leading jurisdictions worldwide. ICIG seeks to advance the common interests and promote public understanding of global investment funds, their managers, and investors. Members of ICIG manage total assets in excess of US \$1 trillion.

³ http://www.oecd.org/ctp/exchange-of-tax-information/TRACE_Implementation_Package_Website.pdf.

⁴ The OECD Report for the G8 Summit, as you know, provides a succinct overview of the issues involved with such a regime. http://www.oecd.org/ctp/exchange-of-tax-information/taxtransparency_G8report.pdf.

⁵ <http://www.oecd.org/ctp/treaties/41974569.pdf>.

appropriate will reduce costs for all. Compliance responsibilities will be shifted to financial institutions subject to well-developed safeguards; these institutions are in the best position, from an access and knowledge standpoint, to ensure the accuracy of investor information.

Governments also will benefit from TRACE because investors will receive the withholding tax relief provided by negotiated treaties; as a result, these investors will not claim foreign tax credits (to the detriment of their residence governments) for excess tax that they cannot recover. Streamlined withholding procedures also will make local markets more attractive to cross-border investment.

Indeed, governments already have benefited from TRACE. Many of the issues considered in the AEOI initiative already have been vetted fully by governments and business during the TRACE consultation. The AEOI initiative would not be able to advance in the short timeframe contemplated by governments without the critical groundwork provided by the TRACE project.

For the business community to get any benefit from AEOI – beyond the reduced cost burden of simpler and more administrable rules – it is imperative that TRACE be implemented broadly and simultaneously. The cost of implementing TRACE will be reduced for business, as well as governments, if the systems enhancements required to implement TRACE and AEOI are made together.

Pairing TRACE with AEOI, some have suggested, may provide another benefit. Specifically, multilateral AEOI momentum might be enhanced if governments agreed that a financial institution (FI) could not become an authorized intermediary (AI) – and benefit from TRACE's relief mechanisms – unless the FI's country of residence participates in multilateral AEOI.⁶ By pairing TRACE with AEOI, participating governments might gain an additional leverage point by incentivizing the FIs in significant nonparticipating financial centers to support multilateral AEOI.

Thank you again for your support for TRACE. Please feel free to contact me (at 202/326-5832 or lawson@ici.org) at your convenience if we can provide you with any additional information.

Sincerely,

/s/ Keith Lawson

Keith Lawson
Senior Counsel – Tax Law

cc: Mike Danilack

⁶ If governments take this approach, consideration should be given to providing AI status to FIs in countries that require their FIs to report tax information directly to other governments (*e.g.*, as required by the FATCA Model 2 Intergovernmental Agreement).