Why U.S. Accounts of Americans Abroad Are Being Closed

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Thun Financial Advisors Research 2016

Executive Summary

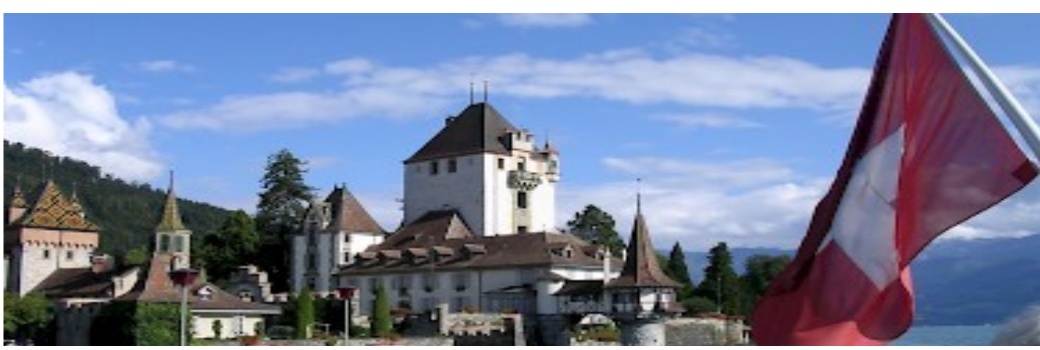
- Overview of the restrictions and historical reasons for account closures of Americans abroad by both U.S. and Foreign financial firms.

Thun Financial Advisors, L.L.C. is a U.S.-based, fee-only, Registered Investment Advisor that provides investment management and financial planning services to Americans residing in the U.S. and overseas.

We maximize long-term wealth accumulation for our clients by combining an index allocation investment model with strategic tax, currency, retirement and estate planning. We guard our clients' wealth as though it was our own by emphasizing prudent diversification with a focus on wealth preservation and growth.

Introduction: Banking Restrictions Present New Problem for Americans Abroad

Americans abroad are being informed by U.S. banks and brokerage firms with increasing frequency that their accounts have been restricted or even closed due to their status as non-U.S. residents. These actions are being taken by a broad range of U.S. financial institutions and notably include Morgan Stanley, Fidelity, Merrill Lynch and Wells Fargo. This follows on the heels of widespread action by non-U.S. financial institutions to revoke and refuse services to expat Americans as a result of the Foreign Account Tax Compliance Act (FATCA). Consequently, Americans abroad find it increasingly difficult to locate banking and investment services both in the U.S. and abroad. Even where they remain wel-



Thun Financial Advisors

3330 University Ave.
Suite 202
Madison WI 53705

www.thunfinancial.com
Skype: thunfinancial

come as clients, the range of services and product availability is typically restricted. This Thun Research article briefly discusses reasons behind brokerage account restrictions and proposes solutions for frustrated U.S. expat investors.

Why are Expat Brokerage Accounts Being Closed?

The global financial regulatory landscape is dramatically changing. FATCA imposes significant new compliance burdens on non-U.S. financial institutions with U.S. clients. As a result, many non-U.S. financial institutions now simply refuse to service U.S. persons. Unfortunately, U.S. financial institutions are following suit due to FATCA and other considerations.

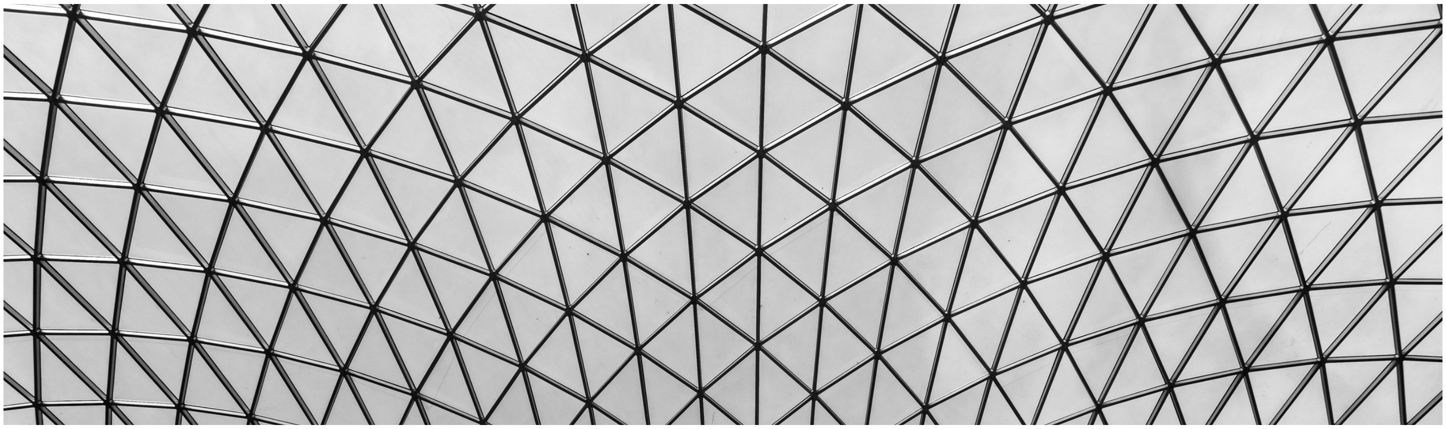
Among U.S. financial institutions, account restrictions differ between firms. Some firms are closing all accounts for non-U.S. residents; while other firms are only restrict services available to Americans not resident in the U.S. In other cases, firms require very high minimum account values for non-U.S residents who wish to remain clients. Bans on purchasing U.S. mutual funds by non-residents, including Americans citizens, are now the norm. These new restrictions affect bank accounts, brokerage accounts, and retirement accounts (IRAs and 401ks).

Many commentators attribute these actions to FATCA and increased offshore tax enforcement efforts. However, there are numerous contributing factors in addition to FATCA. Enhanced Treasury Department enforcement of existing anti-money laundering regulations and know-your-client rules, evolving interpretation of the 2003 Patriot Act, and new European regulation of cross-border investments all play a role. These factors contribute to a heightened compliance burden faced by financial institutions providing retail investment services across borders. Many U.S. institutions are following the lead of foreign banks in limiting perceived compliance and legal risk by simply refusing to provide retail financial services across borders.

Why are non-U.S. Residents Restricted from Owning U.S. Mutual Funds?

As recently reported in the *Wall Street Journal* and other media outlets, many U.S. mutual fund companies recently introduced new policies preventing their funds from being purchased by non-U.S. residents, including Americans abroad. Many expats are surprised to learn that rules barring the sale of most U.S. registered mutual funds to non-residents are decades old. Previously, these long-standing limitations on ownership were seldom enforced. Recently, however, mutual fund companies modified due diligence procedures to compel more rigorous compliance with existing rules. Stepped-up enforcement of existing rules reflects the new environment of enhanced cross-border compliance and regulation among banks and brokerage firms.

Mutual fund distribution agreements typically mandate that mutual fund owners reside domes-



tically in the United States for two main reasons. First, U.S. fund groups are not allowed to solicit overseas business for their SEC-registered funds, even from U.S. expatriates. Offering shares of mutual funds to non-domestic clients could potentially violate the laws of any country in which an investor or prospective investor in a fund is resident or domiciled. Second, mutual funds may make tax treaty claims on their holdings, which require funds to certify all shareholders are resident in the United States.

How can Americans Living Abroad Invest?

A select number of U.S. brokers are still interested and willing to work with Americans abroad. This is especially true when they are guided by a specialized independent financial advisor who can conduct additional due diligence on the client.

While U.S. mutual funds may no longer be available for Americans abroad, Exchange Traded Funds (ETFs) are generally not restricted for sale to non-U.S. residents. A well designed ETF portfolio provides equal or superior diversification than traditional mutual funds. Furthermore, in addition to being exempt from some regulatory burdens, ETFs are generally more tax and cost efficient than traditional mutual funds. Therefore, lack of access to mutual funds should no longer be seen as a major impediment to successful expat investing.

Non-residents also have the option of building portfolios by purchasing individual stocks and bonds. Although this approach entails higher costs and limits an investor's ability to achieve maximally efficient diversification, it is the approach least burdened by cross-border regulation.

Finally, it should also be noted that in many cases the best solution for Americans abroad is simply to keep their address of record in the U.S. Any American living abroad, even for an extended period, is well within their rights to use a U.S. address for the sake of opening accounts and receiving mail. In this case, there will be no restrictions on the account.

Contact Us

Thun Financial Advisors
3330 University Ave
Suite 202
Madison, WI 53705
608-237-1318

Visit us on the web at
www.thunfinancial.com

Skype: thunfinancial.com

Frederic.behrens@thunfinancial.com

Conclusion

Thun Financial Advisors Research is the leading provider of financial planning research for cross-border and American expatriate investors. Based in Madison, Wisconsin, David Kuenzi and Thun Financial Advisors' Research have been featured in the *Wall Street Journal, Emerging Money, Investment News, International Advisor, Financial Planning Magazine* and *Wealth Management* among other publications.