New Customer Due Diligence Rules for Beneficial Ownership: Implementation Game Plan

Presented by:
Susan Costonis, CRCM
Compliance Training & Consulting for Financial Institutions
susancostonis@msn.com

Directed by:
The Community Bankers Webinar Network
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- Montana Independent Bankers Association
- Nebraska Independent Community Bankers
- Independent Comm. Bankers Assoc. of New Mexico
- Independent Bankers Assoc. of New York State
- Independent Community Banks of North Dakota
- Community Bankers Association of Ohio
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Directed by
The Community Bankers Webinar Network
Susan Costonis is a compliance consultant and trainer. She has worked for large and small institutions since 1978 and has been a Certified Regulatory Compliance Manager since 1998. She completed the ABA Graduate Compliance School, and the Graduate Banking School of the University of Colorado. She regularly presents to financial institution audiences in several states and “translates” complex regulations into simple concepts by using humor and real life examples.
New Customer Due Diligence Rules

• What is in the final rule?
• What are the definitions of a legal entity?
• What is the coverage and what are the exclusions?
• What’s involved in the two-prong test for ownership and control?
• Compliance challenges and expectations for due diligence
• Toolkit
Four Key Elements of the New Rule

1. Identify and verify the identity of customers opening covered accounts
2. Identify and verify the identity of beneficial owners with 25% or more equity interest of a legal entity customer
3. Understand the nature and PURPOSE of customer relationships*
4. Conduct ongoing monitoring to maintain and update customer information and to identify and REPORT suspicious transactions.*

• See footnote about elements 3 and 4
Four Key Elements of the New Rule

- CIP
- Legal Entities
- Monitor Account Activity
- Ask transactional questions and risk rate the customer
- CIP 25% Beneficial owners and Controlling person
Finding the New Rules

- FinCEN announced the new rule on May 12, 2016; proposed since 2014.
- This is a link to the Federal Register: https://federalregister.gov/a/2016-10567;
- See the Table of Contents in the Toolkit
- Adds Section 1010.220 – Customer Identification Program
- Adds Section 1010.230 – Beneficial Ownership for Legal Entity Customers
- This section was added effective July 11, 2016. Covered financial institutions must comply by **May 11, 2018**. (FYI May 11, 2018, is a FRIDAY)
## Background and Key Elements

1. Extends Customer Due Diligence (CDD) requirements under Bank Secrecy Act (BSA) rules to the natural persons behind a legal entity

2. The regulation adds a fifth pillar to the traditional “four pillars” of an effective anti-money laundering (AML) program by requiring covered financial institutions to establish risk-based procedures for conducting ongoing customer due diligence
Current “Four Pillars” and New “Fifth Pillar”

<table>
<thead>
<tr>
<th>Current “Four Pillars” for BSA/AML</th>
<th>“Five Pillars under Beneficial Ownership”</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Internal controls;</td>
<td>(5) Get Beneficial ownership information</td>
</tr>
<tr>
<td>(2) Independent testing;</td>
<td></td>
</tr>
<tr>
<td>(3) Designation of an individual</td>
<td>(1) Understand the nature and purpose of</td>
</tr>
<tr>
<td>responsible for day-to-day</td>
<td>customer relationships for the purpose</td>
</tr>
<tr>
<td>compliance;</td>
<td>of developing a customer profile, and</td>
</tr>
<tr>
<td>(4) Training</td>
<td>(2) On-going monitoring to identify and</td>
</tr>
<tr>
<td></td>
<td>report suspicious transactions and, on a</td>
</tr>
<tr>
<td></td>
<td>risk basis, to update customer information</td>
</tr>
<tr>
<td></td>
<td>– including beneficial ownership.</td>
</tr>
</tbody>
</table>
Beneficial Ownership Rule Basics

- **Who is covered by the new rules?**
  - Financial institutions (FI), including banks

- **What is an “Account”?**
  - Applies only to legal entity customers who open new accounts on or after the May 11, 2018, requires FI to **identify and verify a legal entity customer’s beneficial owners each time the customer opens a new account at the institution after the compliance date**, even if the institution has already identified and verified the customer’s beneficial owners at the time the customer opened a previous account.
Beneficial Ownership Rule Basics

• **What is a “Legal Entity Customer”?**
  • Generally defined as:
    ✓ a corporation, limited liability company, or other entity that is created by the filing of a public document with a Secretary of State or similar office,
    ✓ a general partnership, and any similar entity formed under the laws of a foreign jurisdiction that opens an account
    ✓ See “Tasks” for “Getting Ready” in “Checklist for Implementation Steps” in the Toolkit about legal entity customers.
“Getting Ready” Tasks for Legal Entities in Toolkit

3. Sample the legal entity customers; see how much you really know about them and their operations.

4. How many legal entity customers are classified as “high risk”?

5. Research Secretary of State (or equivalent) and develop a list of the legal entities that are required to register (Corporations, LLCs, etc.).

6. General partnerships are a legal entity, but are usually not required to register; probably should be on the list.

7. Understand that sole proprietorship is not a legal entity.
Exemptions

- Regulated financial institutions;
- Certain governmental agencies;
- Entities whose common stock or equity interest are listed on the New York Stock Exchange or the American Stock Exchange or have been designated as a NASDAQ National Market Security listed on the NASDAQ Stock Market;
- Issuers of classes of securities registered under Section 12 of the Securities Exchange Act;
- Registered investment companies and investment advisers;
Exemptions

- Exchange or clearing agencies;
- Other entities registered with the Securities and Exchange Commission;
- Public accounting firms registered under Sarbanes-Oxley Act;
- Bank holding companies;
- Savings and loan hold companies; and
- State-regulated insurance companies.
Where Do Trusts Fit In?

• When a trust is a “beneficial owner” of a legal entity customer, the beneficial owner is to be considered the trustee of the trust.
What is the Two-Prong Approach to Beneficial Ownership?

The new rule takes a “two-prong approach for the identification of beneficial owners. BOTH must be considered.

1. Ownership
2. Control
Ownership Prong

- Identify any natural persons with a 25% or more ownership of the legal entity.
- There is no requirement for the financial institution to determine beneficial ownership or analyze calculations – they may rely on the information that the customer attests is correct on the certification form.
- There may be NO beneficial owner with 25% or more. If that’s the case, there are no beneficial owners listed in the ownership prong.
- See NOTE on fraudulent or untrue information; possible SAR filing.
Ownership Prong

- There is no requirement to determine if the entity is structured to avoid the 25% threshold
- If an entity is an owner the financial institution is not required to identify/verify natural persons behind the entity
- A trustee will be classified as the beneficial owner if a trust owns 25% or more of a legal entity
Control Prong

- Financial institutions must collect at least one individual on the control prong.
- This should be the natural person in the management structure who has “significant responsibility to control, manage or direct” the legal entity.
Who is a “Beneficial Owner”?  

Under the new rule, a “beneficial owner” includes two types of individuals: 

1. Any individual who, directly or indirectly, owns 25 percent or more of equity interest in the legal entity customer; and  
2. A single individual who has “significant responsibility to control, manage, or direct a legal entity.” See examples.
What is Required?

• The financial institution may comply either by obtaining the required information on a standard Certification Form (See sample APPENDIX A Form) provided by the rule or by any other means that comply with the provision.

• See FinCEN expectations about individual qualified to give certification and knowledge of facts that would question the reliability of information.

• TO DO: WATCH FOR FinCEN TO PUBLISH A LIST OF “FREQUENTLY ASKED QUESTIONS IN THE COMING MONTHS! Add MONITORING PROCESS and TRAIN!
Required Records

• Consistent with CIP rules, records of information collected in connection with identifying and verifying beneficial owners must be retained for five years after the account is closed, for identification records, and five years after the record is made, for verification records.

• For identification, the records must include, at a minimum, any identifying information the institution obtained, including the Certification Form, if it was obtained. For verification, a covered institution must maintain a description of any document the institution reviewed to verify the beneficial owner’s identity, noting the type, any identification number, any place of issuance, any date issuance, and any expiration date.
### Summary CIP, Beneficial Owners, Records

<table>
<thead>
<tr>
<th>Financial Institutions must retain...</th>
<th>For a FIVE-year period after</th>
</tr>
</thead>
<tbody>
<tr>
<td>The identifying information obtained <strong>and the</strong> certification</td>
<td>The account is closed.</td>
</tr>
<tr>
<td><strong>a description</strong> of the:</td>
<td></td>
</tr>
<tr>
<td>• documents it used to verify identity (noting the type, any identification number, place of issuance, date of issuance and expiration),</td>
<td>The information is obtained.</td>
</tr>
<tr>
<td>• the methods and results of any measures undertaken to verify identity, and</td>
<td></td>
</tr>
<tr>
<td>• the resolution of any substantive discrepancy discovered when verifying the information it received.</td>
<td></td>
</tr>
</tbody>
</table>
Appendix A – Certification Form

• What is this form?
• Who has to complete this form?
• What information do I have to provide?
• CERTIFICATION OF BENEFICIAL OWNER(S)
• Persons opening an account on behalf of a legal entity must provide the following information:
  – Name and Title of Natural Person Opening Account:
  – Name and Address of Legal Entity for Which the Account is Being Opened:
Appendix A – Certification Form

Name and Address of Legal Entity for Which the Account is Being Opened:

The following information for each individual, if any, who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, owns 25 percent or more of the equity interests of the legal entity listed above:

<table>
<thead>
<tr>
<th>Name/Title</th>
<th>Date of Birth</th>
<th>Address (Residential or Business Street Address)</th>
<th>For U.S. Persons Social Security Number</th>
<th>For Foreign Persons Passport Number and Country of Issuance, or other similar identification number</th>
</tr>
</thead>
</table>

(If no individual meets this definition, please write “Not Applicable.”)
Appendix A – Certification Form

The following information for one individual with significant responsibility for managing the legal entity listed above, such as:
- An executive officer or senior manager (e.g., Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Managing Member, General Partner, President, Vice President, Treasurer); or
- Any other individual who regularly performs similar functions.

(If appropriate, an individual listed under section (c) above may also be listed in this section (d)).

<table>
<thead>
<tr>
<th>Name/Title</th>
<th>Date of Birth</th>
<th>Address (Residential or Business Street Address)</th>
<th>For U.S. Persons Social Security Number</th>
<th>For Foreign Persons Passport Number and Country of Issuance, or other similar identification number</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

I ____________________________ (name of natural person opening account), hereby certify, to the best of my knowledge, that the information provided above is complete and correct.
**Suggestion:** The use of this form does not offer a “safe harbor” as provided in other compliance regulations. However, it is a specific form provided in the new rules. One “simple” method to complete customer due diligence for the new rules might be to ADD a column to the form after the “foreign persons” column that indicates the specific ID that was relied on to establish the identity of individuals listed on the form. Was it a copy of the driver’s license? What was the issue date? What was the expiration date? What state or country issued the document?
### Appendix A Options

<table>
<thead>
<tr>
<th>OPTION 1</th>
<th>OPTION 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Use Appendix A (or a modified version) as a paper form to gather the required information with the person opening the account certifying that, to the best of his or her knowledge, the information is accurate.</td>
<td>• Do not use Appendix A in paper form; obtain the information from the individual opening the account by any other means. However, the person opening the account must <strong>certify</strong> that, to the best of his or her knowledge, the information is accurate.</td>
</tr>
</tbody>
</table>
## Potential Appendix A Revisions

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document the type of entity</td>
<td>Describe how individual’s identity was verified, describing both documents and non-documentary methods used.</td>
</tr>
<tr>
<td>Entity’s taxpayer ID number</td>
<td>Phone number of each individual</td>
</tr>
<tr>
<td>Entity’s physical address (note that Appendix A does not specify what address is required)</td>
<td>Require the beneficial owners’ individual percentage of ownership.</td>
</tr>
<tr>
<td>Document whether each individual listed is an existing customer previously subjected to CIP; i.e., “Yes” or “No”</td>
<td>Require the individual opening the account to be an officer, member, or partner of the legal entity.</td>
</tr>
</tbody>
</table>
Potential Appendix A Revisions

- If the customer is excluded from the definition of “legal entity” indicate why and document as required by policy.
- EXAMPLE – if the customer is a nonprofit; indicate this fact and document as required by policy.

- Require the person opening the account to either:
  - be an existing customer on whom CIP has been performed or
  - agree (in writing) that the financial institution can perform CIP on him or her
The final rule also amends AML program requirements for each type of covered financial institution by adding the requirement that institutions implement risk-based procedures to conduct ongoing customer due diligence, including understanding the nature and purpose of customer relationships to develop a customer risk profile.

According to FinCEN, an institution must develop a “customer risk profile” using the information the institution gathers about the customer at account opening and use that customer risk profile as a baseline against which the institution will assess future customer activity for potential suspicious activity reporting. The profile may include the type of customer or type of account, service, or product type.
Amendments to AML Program Required

• When a financial institution detects information (including a change in beneficial ownership information) about the customer in the course of its normal monitoring that is relevant to assessing or reevaluating the risk posed by the customer, it must update the customer information, including beneficial ownership information.

• See list of “triggering events” that may indicate a possible change in the customer’s beneficial ownership, and may change the risk rating.

• The requirement to update such information is event-driven and occurs as a result of normal monitoring.
FinCEN also noted that the requirements of the rule “represent a floor, not a ceiling, and, consistent with the risk-based approach, financial institutions may do more in circumstances of heightened risk, as well as to mitigate risks generally.” In addition, the regulators may themselves impose their own supervisory requirements on the institutions they examine.

These AML program amendments will apply to all legal entity customers, including existing ones, as of May 11, 2018.
Important Differences from Current CIP Rules

• Current CIP from 10/11/2003 allowed “grandfathering” if true identity was known. If this was done, UPDATE POLICY & PROCEDURES FOR NEW RULES.

• The new rule does not require financial institutions to do an automatic or comprehensive “look back” to obtain beneficial ownership for existing legal entities. However, there will be a “line in the sand” beginning May 11, 2018, and unlike the CIP provisions there is NO “grandfather provision for existing customers!

• The requirements to certify and verify is triggered each time a legal entity (new or existing) opens a covered account, including loans.
Example for New CDD & CIP

Good Gumbo, Inc. (a legal entity) has been a corporation in your state and long-time customer for 35 years. The second generation is now running the business and has several loan and deposit accounts. A lender, Billy Bob Breaux, handles the relationship for Bubba Breaux, the CEO of the company. CIP was done for Good Gumbo in 2003 and for Bubba Breaux.

On May 30, 2018, Good Gumbo applies for a new loan to finance a franchise location in Alabama. Good Gumbo also opens a new customer account. Billy Bob Breaux must obtain the beneficial ownership information on Appendix A (or a similar form) and complete CIP on each of the individuals listed as beneficial owners, including Bubba Breaux.
More on “Beneficial Owner”

- **Legal entity customer** – filing of a *public document with a Secretary of State or similar office*, a general partnership, and any similar entity formed under the laws of a foreign jurisdiction that opens an account

- Sole proprietorships or unincorporated associations are exempt

- See comments on ownership prong, thresholds, and special circumstances

- **Control prong** – “single individual with significant responsibility to control, manage, or direct a legal entity customer”  See examples
More on “Beneficial Owner”

• Variations on the number of beneficial owners identified under the ownership and control prongs. FinCEN recognized that, under the ownership prong, depending on the factual circumstances, as few as zero and as many as four individuals may need to be identified.

• All entities, however, would be required to identify one beneficial owner under the control prong. It is possible that in some circumstances the same person or persons might be identified under both the ownership and the control prongs.

• FinCEN further noted that covered financial institutions had the discretion to identify additional beneficial owners as appropriate based on risk.
Monitoring of Beneficial Ownership

• FinCEN does expect covered financial institutions to update this information episodically based on risk, generally triggered by a financial institution learning through its normal monitoring of facts indicative of a change in beneficial ownership relevant to assessing the risk posed by the customer. This presents a second way that a pre-existing customer of a covered financial institution might have to provide beneficial ownership information, in this case even if no new account has been opened.

• Requires certification by a natural person authorized by the customer to open accounts.
Certification Issues

- The certification of accuracy may be obtained without use of the certification form “in the same way the financial institution obtains other information from its customers in connection with its account opening procedures.”

- FinCEN declined to impose specific account opening procedures on covered financial institutions, such as further specifying who an appropriate individual would be to certify the identity of the beneficial owner.

- The “best of the individual’s knowledge” standard anticipates that while the individual making the certification appropriately will be an officer with substantial knowledge of the company, such as a corporate secretary.
Verification Issues

• Rely on the beneficial ownership information given by the person opening the account provided there is “no knowledge of facts that would reasonably call into question the reliability of such information.”

• The procedures for verifying beneficial owner identity must, at a minimum, contain the same elements required under the institution’s CIPs for verifying the identity of customers who are individuals, though they need not be identical, (some methods may not be practicable for beneficial owners). When documentary verification is used, you may rely on photocopies of identifying documents rather than originals.
Reliance on Determinations by other Covered Financial Institutions

- Such reliance is reasonable under the circumstances.
- The other financial institution is subject to a rule implementing 31 U.S.C. 5318(h) and is regulated by a federal functional regulator.
- The other financial institution enters into a contract requiring it to certify annually to the covered financial institution that it has implemented its anti-money laundering program, and that it will perform (or its agent will perform) the specified requirements of the covered financial institution’s procedures to comply with the requirements of this section.
- See exclusions, exemptions, and recordkeeping.
Steps to Prepare for the Changes

• **To do:** Watch for updates to BSA exam procedures!

• **Use the procedures as a “template” for internal monitoring and audit**

• Prepare to update:
  – Internal controls;
  – Independent testing procedures; and
  – Risk-assessment procedures
Steps to Prepare for the Changes

• **STEP ONE:** Test the requirements of your CIP as if you were attempting to use it on an individual who is not present and for whom you only have a photocopy of identification.

• **Will your existing CIP actually work on beneficial owners?**

• **A photocopy of the driver’s license may verify name, address, and date of birth, but not the NAME/TIN combination.**

• **CHALLENGE –** However, verifying a name/TIN combination on a person who is not applying to do business with your institution is difficult. Documentary verification would require a second document.
Steps to Prepare for the Changes

• **STEP TWO:** Establish a CIP for beneficial owners that is different than your “customer” CIP, a “Beneficial Ownership CIP”
  • List acceptable forms of identification
  • Establish acceptable criteria for identification; (can it be in a foreign language or must it be in English, is it legible?)
  • Indicate whether faxed identification is acceptable
  • Require two forms of identification
  • Require original identification
• **STEP THREE:** The policy should establish a timeframe related to account opening in which “verification” must take place
  – Prior to opening the account
  – Within a reasonable timeframe after account opening

• The policy should also outline:
  – What happens when the financial institution is unable to verify the existence of one or more beneficial owners?
  – When are problems with obtaining the certification escalated to SAR consideration; how is this done?
Issues

• Education and training of legal entities
• Unanswered questions and challenges

Industry experts suggest that the policy and procedures for the new rules be in place not later than May of 2017
BSA Issues

• What is the risk assessment link to BSA/AML Program? – See charts
• Risk assessment – products, services, customers, and geographies
• Internal controls
• Risk-based compliance program – Add FIFTH PILLAR
• AML – CIP/TRAINING (add beneficial owner rules)
• CDD – Monitoring, training (add beneficial owner rules)
Common Issues & Enforcement

• Internal controls – risk assessment issues
  – Using incorrect customer risk ratings.
  – A failure to obtain and verify Customer Identification Program information.
  – Lack of documentation of customer due diligence and enhanced due diligence.

• Transaction monitoring
  – Using manual transaction monitoring.
  – Institution has outgrown its monitoring systems.
  – Model validation issues, caps on the numbers of alerts. (See next section CDD)
Due Diligence & New Rules

• See Flow Chart of Due Diligence (CDD – Customer Due Diligence and EDD – Enhanced Due Diligence for higher-risk accounts based on ownership structure)

• CIP and new Beneficial Ownership Rules – NO exceptions

• Appendix K for Risk versus Due Diligence and SAR monitoring
# CIP Matrix

<table>
<thead>
<tr>
<th>CIP for Deposit and Loan Customers</th>
<th>CIP for Beneficial Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Information:</strong></td>
<td></td>
</tr>
<tr>
<td>Name, Address, DOB, and TIN or EIN</td>
<td>Name, Address, DOB, and TIN or EIN</td>
</tr>
<tr>
<td><strong>Documents:</strong></td>
<td></td>
</tr>
<tr>
<td>Driver’s license and Social Security card for individuals for a deposit account. Loan customer would require a primary document and a consumer report Government-issued document – example articles of incorporation, partnership agreements, etc.</td>
<td>Driver’s License and Social Security Card for individuals for a deposit account. May be a copy of the license, passport or other government issued ID. Loan customer would require a primary document and a consumer report. Government-issued documents, see examples; Appendix A or equivalent.</td>
</tr>
<tr>
<td><strong>Nondocument:</strong></td>
<td></td>
</tr>
<tr>
<td>Third-party vendor and welcome letter</td>
<td></td>
</tr>
</tbody>
</table>
CIP Approaches

<table>
<thead>
<tr>
<th>A deposit customer might need:</th>
<th>A loan customer might need:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two forms of documentary identification, one of which must be primary</td>
<td>One form of primary documentary identification and a consumer report</td>
</tr>
</tbody>
</table>
## Beneficial Owner Examples

<table>
<thead>
<tr>
<th>If the owners are...</th>
<th>Then the customer is a...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td>Corporation</td>
</tr>
<tr>
<td>Partners</td>
<td>Partnership</td>
</tr>
<tr>
<td>Limited Liability Company</td>
<td>Members</td>
</tr>
</tbody>
</table>
Interview Questions

1. Are you a U.S. citizen? If not, in what country are you a citizen?
2. Why did you select this financial institution?
3. Do you have accounts or loans at other institutions?
4. If you open a deposit account, what type of items will be deposited? (i.e., cash, checks, ACH, wires) How frequently do you expect to make deposits?
5. How will you deduct funds? Checks, ATM, debit card, ACH, etc.
6. What is the purpose of the deposit account?
7. What is the purpose for the loan request? Will it be secured by collateral?
8. Will any business proceeds be deposited into the account?
9. Will any business proceeds be used to repay the loan?
10. What is your current employment? What are your sources of income?
11. What are your debts/liabilities?
12. For legal entities ask about the beneficial owners and person(s) controlling the entity.
13. Determine if any beneficial owners have 25% or more in interest of the entity.
14. Review loan application and other information to determine possible candidates for the “control” prong. ASK DIRECTLY – who “controls” the entity?
15. COMPLETE CIP and CDD DOCUMENTATION STEPS
# Checklist for Identifying Legal Entities

<table>
<thead>
<tr>
<th>TASK</th>
<th>DESCRIPTION OF STEPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The person opening an account (including a loan) for a legal entity customer claims that the entity is excluded from the legal requirement to name its beneficial owners and provide the identifying information.</td>
</tr>
</tbody>
</table>
| 2.   | If the legal entity is a:  
  - State or federally supervised financial institution or  
  - A government entity or publically traded company listed on a major stock exchange or a subsidiary of a publically traded company listed on a major stock exchange or a state regulated insurance company  
   The lender, loan assistant, or new account representative will DOCUMENT this statement with evidence provided by the person opening the loan or deposit account. This may require independent research. If reasonable documentation is provided go to Task 5. If this is not satisfied, go to Task 4. |
The financial institution requires the completion of Appendix A or an equivalent customized document **prior to opening the loan or deposit account.**
## Checklist for Identifying Legal Entities

<table>
<thead>
<tr>
<th>TASK</th>
<th>DESCRIPTION OF STEPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>The loan assistant, lender, or deposit account representative will make notation of the legal entity customer exclusion in the CUSTOMER INFORMATION FILE or appropriate documentation system that is outlined in the CIP/CDD procedures and DESCRIBE the supporting documentation that was obtained.</td>
</tr>
<tr>
<td>6.</td>
<td>A similar table must be developed for the entities that are only subject to the “control prong” in Appendix A.</td>
</tr>
</tbody>
</table>
# Due Diligence After Opening

<table>
<thead>
<tr>
<th>Reports &amp; Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Accounts listed by risk,</td>
</tr>
<tr>
<td>• Average balance change,</td>
</tr>
<tr>
<td>• Check/debit volume change, kiting suspects,</td>
</tr>
<tr>
<td>• Large dollar transactions,</td>
</tr>
<tr>
<td>• Loans with early pay off, loans secured by cash equivalents,</td>
</tr>
<tr>
<td>• Many deposits, few checks, significant balance changes,</td>
</tr>
<tr>
<td>• Account analysis,</td>
</tr>
<tr>
<td>• Electronic banking and activity,</td>
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<tr>
<td>• Accounts with multiple alerts,</td>
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<tr>
<td>• Cash tracking,</td>
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<tr>
<td>• Rules-based anti-money laundering software, or</td>
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<td>• Intelligent anti-money laundering software</td>
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To help the government fight financial crime, federal regulation requires certain financial institutions to obtain, verify, and record information about the beneficial owners of legal entity customers. Legal entities can be abused to disguise involvement in terrorist financing, money laundering, tax evasion, corruption, fraud, and other financial crimes. Requiring the disclosure of key individuals who ultimately own or control a legal entity (i.e., the beneficial owners) helps law enforcement investigate and prosecute these crimes.
CIP – Big Picture with Beneficial Ownership

- Identify a legal entity customer’s beneficial owners at account opening and
- **Conduct CIP for each customer**: Verification through documents and non-documentary verification, 326 government list check
- Recordkeeping and customer notice
- FIFTH pillar for due diligence
- Understand the nature and purpose of a customer relationship based on a risk profile and
- Conduct ongoing monitoring and maintaining and updating information for SAR purposes
<table>
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<tr>
<th>Checklist for Implementation Steps</th>
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<td>✓ Policies</td>
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<td>✓ Regulatory Guidance</td>
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Final Thoughts

- Complete CIP documentation. It’s still “KNOW YOUR CUSTOMER”
- Complete CDD documentation for beneficial ownership rule. REMEMBER THAT THERE IS NO “GRANDFATHER” EXCEPTION FOR THE NEW BENEFICIAL OWNERSHIP RULES. Look for “triggering events” for existing customers prior to May 11, 2018
- Look for FAQs from FinCEN and review them carefully!
- Exercise due diligence for account activity
Final Thoughts

• Monitor “triggering events” for changes in ownership that may require updates to EXISTING CIP documentation for deposit and loan records
• Report POTENTIAL suspicious activity to the BSA Officer
• Participate in periodic training and make sure that new employees receive training
• Review the checklist for the Implementation Plan in the Toolkit
Questions!!!
Thank You for Attending!

Susan Costonis, C.R.C.M.
susancostonis@msn.com