

# Beneficial Ownership 101

Under FinCEN's Customer Due Diligence Requirements for Financial Institutions (the "CDD Rule"), the regulatory pressures on financial institutions to identify and verify their customers are the greatest they have ever been. If all owners of the legal entity opening accounts are not defined and known, financial institutions may be subject to fines and severe risk implications.



## The Risk ...

**2,000,000+**<sup>1</sup>

Two million+ companies, LLCs, and other legal entities are formed in the United States every year.

States collect less identifying information about the individuals forming these legal entities than they do about people applying for a driver's license<sup>1</sup>.

**Covered Financial Institution** = Federally regulated banks and federally insured credit unions, mutual funds, brokers or dealers in securities, futures commission merchants, and introducing brokers in commodities.

**Nearly \$1 trillion**<sup>2</sup>

The amount of money that illicitly leaves developing countries due to hidden company ownership.

**848,355**<sup>3</sup>

5-year average of initial Suspicious Activity Reports (SARs) filed in the United States by roughly 29,000 covered financial institutions.

**\$300 billion**<sup>3</sup>

Treasury Department's estimate of illicit proceeds generated annually in the United States.



## The Rule ...

- July 11, 2016: Rule became effective.
- CDD Rule requires covered financial institutions to collect information on significant beneficial owners of legal entities.
- Applies to any covered financial institution of any size.
- Covered financial institutions are now required to **Identify & Verify** beneficial owners for all legal entity customers who open new accounts.

**The goal is to provide greater transparency as to who really controls a company.**

**Beneficial Owner** = individual who owns or controls more than 25% of a corporation's shares or voting rights.



## The Reality ...

To comply with this new CDD Rule, financial institutions will need to establish procedures for making and maintaining records, including:

- Standard certification forms
- Descriptions of all documents or other methods relied upon for identity verification
- Descriptions of resolution of discrepancies

**Customer risk profiles** should be developed through understanding the nature and purpose of customer relationships, with ongoing monitoring to:

- Identify and report suspicious activities
- Maintain and update customer information on a risk basis



## The Result ...

**A successful and profitable path** is best ensured when a financial institution has its finger on the pulse of changing laws and regulations.

**A positive and rewarding culture of compliance** across the organization helps financial institutions gain a competitive advantage over industry peers. This is accomplished through:

- Effective technology
- Organized procedures
- Continuous monitoring

Learn more about how Thomson Reuters **CLEAR** records resource can facilitate your beneficial ownership investigations and establish a successful compliance program for your financial institution.

1. <http://www.transparency-usa.org/what-we-do/fighting-corruption/beneficial-ownership-transparency/>

2. <https://financialtransparency.org/issues/beneficial-ownership/>

3. <https://www.federalregister.gov/articles/2016/05/11/2016-10567/customer-due-diligence-requirements-for-financial-institutions#t-6>