CDD/Beneficial Ownership – Implementation and Key Decision Points

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Internal F.R.
The views and opinions expressed here are those of the speakers. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.
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Objectives
At the end of this session, you should be able to:

- Understand what is required to implement the new CDD/Beneficial Ownership Rule
- Know Who and What to include in your implementation plan
- Take away some best practices for training bank employees
- Understand what to do post implementation
How did we get here?

1. **Focus on Transparency**
   A. ICIJ release of the Panama (Mossack Fonseca) Papers in April 2016
   B. 60 Minute Special - Anonymous, Inc. in January 2016
   C. FinCEN focus on Real Estate through the use of the Geographical Targeting Orders starting in January 2016 which has been extended through August 2017
   D. Finalization of the CDD Final Rule in May 2016
   E. Transparency International’s Tainted Treasures Report in April 2017
Quick Background on the Beneficial Ownership/CDD Rule
Beneficial Ownership Legislation

On May 5, 2016, U.S. Treasury announced a Customer Due Diligence (CDD) Final Rule, proposed Beneficial Ownership legislation, and proposed regulations related to foreign-owned, single-member limited liability companies (LLCs). Rule is mandatory on May 11, 2018.

Key Premises:

- The CDD Final Rule adds a new requirement that financial institutions collect and verify the personal information of the real people (also known as beneficial owners) who own, control, and profit from companies when those companies open accounts.
- Companies formed within the U.S. would be required to file beneficial ownership information with the US Treasury.
Beneficial Ownership Legislation – Four Core Requirements

1. Customer identification and verification (Name, Address, Date of Birth, Social Security Number)

2. Beneficial ownership identification and verification
   A. Ownership Prong (each individual, if any, who owns, directly or indirectly, 25 percent or more of the equity interests of the legal entity customer);
   B. Control Prong (At least one or more individuals with significant responsibility for managing the legal entity customer)

3. Understanding the nature and purpose of customer relationships to develop a customer risk profile, and

4. Ongoing monitoring for reporting suspicious transactions and, on a risk-basis, maintaining and updating customer information. (The updating requirement is event-driven and occurs as a result of normal monitoring)
Polling Questions!!

Do you think that collecting this information will help highlight and manage your customer risk?

a) Yes
b) No
c) Maybe
Project Plans and Board Involvement
Joe Project Plan

- Project objective(s)
- Expected project milestones
- Critical assumptions and constraints
- Implementation complexity, risks and mitigation techniques
- Alternatives analysis
- Cost projections

Heather Project Plan

- Executive summary (plain language)
- Costs-hard & soft
- Justification
- Project team, oversight governance and stakeholders
- Milestones and deliverables
- Major project risks
- Assumptions and Constraints
- External dependencies (vendors)
- Communication Strategy
### Timelines:

**Task Name** | **Start** | **Finish**
--- | --- | ---
**Educational Groundwork** | 9/1/2016 | 5/20/2018
**Operational Investigation & Vendor Inquiries** | 1/2/2017 | 4/30/2017
**Project Approval** | 5/9/2017 | 5/9/2017
**Design Phase and Major Policy Decisions by Project Committee** | 6/1/2017 | 8/31/2017
**Construction Phase & testing** | 9/1/2017 | 11/13/2017
**Policy, Procedure, Job Aid development and Communication Plan** | 11/13/2017 | 12/1/2017

**Phased Rollout**

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<tr>
<th>Task Name</th>
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<td><strong>Commercial Loans</strong></td>
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<td>Training</td>
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<td>Soft Roll-out</td>
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<td>Total Bank Roll-out</td>
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Polling Questions!!

Do you plan to or are you considering engaging a vendor to assist with compliance to this rule?

a) Yes
b) No
c) Maybe
The Importance of Partnerships
Who’s on the Implementation/Project Team?

Joe’s
• Sponsor (Executive)
• Project Management
• BSA and AML Teams
• Retail
• Deposit Operations
• Loan Operations
• Commercial
• Private Banking

Heather’s
• Executive
• Learning and Development
• Application Development
• Vendor Owners
• BSA Department
• Internal Audit
• Compliance
• Retail
• Deposit Operations
• Commercial Loans
• Loan Operations
• Marketing
• Call Center
Training Approaches
Training Best Practices

• In-person versus computer-based training
  • Webinars, blogs
• Outside experts to train the trainer
• Development of job aids
Polling Questions!!

*How far along is your organization in being prepared to comply with this rule?*

a) 25% ready  
b) 50% ready  
c) 75% ready  
d) 100% ready or already in compliance
I’ve Implemented my Action Plan, now what?
Post Implementation

• Internal Monitoring and Testing
  • Controls, audit schedule
• Who’s responsible after implementation?
  • First line, second line, third line of defense
Conclusions and Key Takeaways

• Have a plan
• Create an implementation plan including other key business lines
• Work with your vendor to develop a timeframe for implementation
• Develop a training strategy
Questions?