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BULLETIN: 2019-KDCU-CUB-13
TO: Kansas Chartered Credit Unions
SUBJECT: Customer Due Diligence

CUSTOMER DUE DILIGENCE

On May 11, 2018, the Financial Crimes Enforcement Network (FinCEN)'s new rule on Customer Due Diligence (CDD) became mandatory. The rule, which amends the Bank Secrecy Act (BSA) regulations, seeks to improve financial transparency and prevent criminals and terrorists from misusing companies to disguise their illicit activities and money laundering. It clarifies and strengthens CDD requirements for financial institutions by requiring covered financial institutions to identify and verify the identity of natural persons ("beneficial owners") of legal entity members who own, control and profit from companies who open accounts.

The CDD rule has four core requirements:

- Identify and verify the identity of members;
- Identify and verify the identity of beneficial owners;
- Understand the nature and purpose of member relationships to develop member risk profiles; and
- Conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update member information.

Credit unions will have to identify and verify the identity of any individual who owns 25 percent or more of a legal entity, and an individual who controls the legal entity. The credit union may choose to go further than the 25 percent requirement depending on the member's business and risk profile.

In addition, the legal entity will need to identify a [control person](#) (who may not be a beneficial owner). The control person is an individual with "significant responsibility to control, manage or direct the company." FinCEN expects this person to be a high-level official who is responsible for how the organization is run and will have access to information concerning the day-to-day operations of the company.

What is a "legal entity"? The CDD rule defines it as a corporation, limited liability company, general partnership, limited partnership or other entity created by the filing of a public document with the Secretary of State of similar office. The definition does not include sole proprietorships, unincorporated associations or natural persons opening accounts on their own behalf.

FinCEN has prepared a [guidance document](#) for financial institutions with questions. You can also review the [FFIEC BSA/AML Examination Manual](#). Please note that even if your credit union does not currently open or service business accounts, there should be a reference to the CDD rule in your policy.