

M2M

Implementing the New Beneficial Ownership Rules



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Sponsor and Presenters

Sponsor

Compliance Resource, LLC is a consulting firm for financial institutions that focuses on compliance with federal laws and regulations applicable to financial institutions. Its website, jackscomplianceresource.com, provides multiple resources to assist financial institutions in their efforts to comply with federal laws and regulations.

Presenters

Jack Holzknicht is the CEO of Compliance Resource, LLC. He has been delivering the word on lending compliance for 41 years. In 36 years as a trainer over 130,000 bankers (and many examiners) have participated in Jack's live seminars and webinars. Jack's career began in 1976 as a federal bank examiner. He later headed the product and education divisions of a regional consulting company. There he developed loan and deposit form systems and software. He also developed and presented training programs to bankers in 43 states. Jack has been an instructor at compliance schools presented by a number of state bankers associations. As a contractor he developed and delivered compliance training for the FDIC for ten years. He is a Certified Regulatory Compliance Manager and a member of the National Speakers Association.

Brent Vincent is Administrative Services Officer for Compliance Resource, LLC, a source of compliance assistance for financial institutions. Brent's career began with UPS Supply Chain Solutions as an Electronic Repair Technician. In this position he repaired laptop computers from customers across the United States. He was also selected to manage a national recall, and facilitate the repair of over 20,000 affected units. He later joined Ramric, LLC as a district manager of multiple quick service restaurants. His responsibilities at Ramric included managing payroll, making product orders, inventory control, and maintain a high level of food safety. At the end of Brent's tenure, sales had increased nearly 50% over the final two years. Brent has an AA in Computer Engineering Technology from Sullivan Institute of Technology and Design and is a member of the SCTD Alumni Association.

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Program Description and Purpose

Introduction

On May, 5 2016 the Financial Crimes Enforcement Network (“FinCEN”) issued its final rule on beneficial ownership and customer due diligence. This rule forces covered institutions to develop and implement procedures to identify and verify a legal entity customer’s beneficial owner(s) when a new account is opened. A mandatory compliance date of May 11, 2018 was set.

We have become increasingly curious as to what steps our Compliance Masters Group (CMG) member institutions are taking towards their implementation of the new beneficial ownership rules.

Purpose

This Master-to-Master (M2M) session reviews the results of our recent CMG member poll and is designed to identify how member institutions are planning to implement these new procedures to comply with the new rules.

Program Description and Purpose

Goals

Upon completion of this session, participants understand:

- Where other member institutions are on the timeline of implementation;
 - Whether other members are developing or purchasing additional tools or if existing systems will provide assisting tools;
 - How much time members feel beneficial owner determination will add to account openings;
 - What percentage of company ownership other member institutions are requiring to comply with the new rules
 - Who they will have complete the certification form
 - Whether others will make any efforts beyond the certification form to determine ownership
 - How others will verify the identity of beneficial owners
 - Whether others will attempt to determine whether existing legal entity customers have beneficial owners
 - What other member institutions will use as triggers to update information
 - What other areas members are planning to incorporate beneficial ownership information into processes for
 - Are other members “educating” business clients on the new beneficial ownership requirements; and
 - What are the biggest challenges to implementing the new rules.
-

Implementing the New Beneficial Ownership Rules

What? Compliance Resource, LLC. conducted a poll of its' CMG members from March 5, 2018 to March 6, 2018 using the SurveyMonkey system.

Survey Results Compliance Resource received survey responses from 48 of its 132 members (36% response rate). Respondents gave answers to 15 questions.

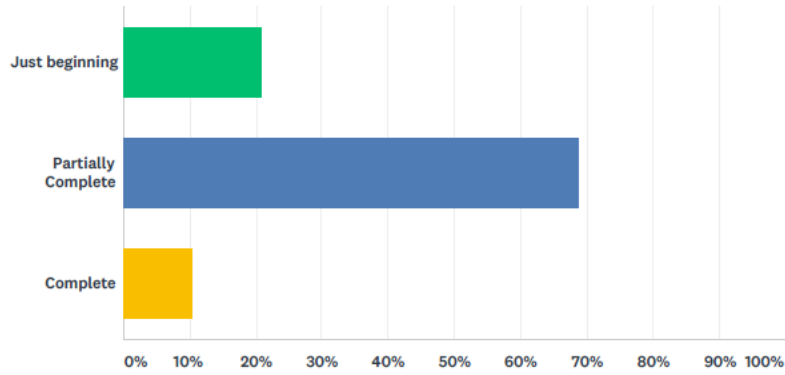
Question 1 of the poll consisted of the respondent's identifying information.

The following results begin with question 2 in the poll.

Question 2

Q2 Where is your institution on the timeline for implementing the Beneficial Ownership rules?

Answered: 48 Skipped: 0

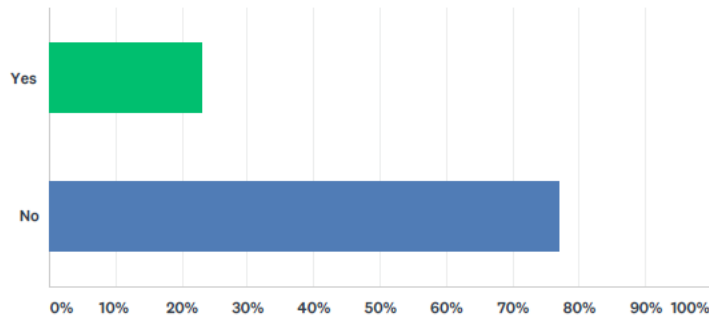


ANSWER CHOICES	RESPONSES	
Just beginning	20.83%	10
Partially Complete	68.75%	33
Complete	10.42%	5
TOTAL		48

Question 3

Q3 Are you developing or purchasing any tools to assist with the process?

Answered: 48 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes	22.92%	11
No	77.08%	37
TOTAL		48

IF "YES", WHAT TOOLS?

Due Diligence Manager by Banker's Toolbox

Beneficial Ownership Quick Ref Guide to include 1. Who's exempt. 2. Different scenarios for proper completion of the form. Internal project manager is programming our new account customer risk assessment into our deposit platform and mapping some of the info to our core.

Job Aides

Unsure at this time

Utilizing a questionnaire at account opening in the future

example scenarios for tellers and lending staff

Our data processor will track and comply with retention of information requirements. The form will be completed in our deposit platform and loan software.

Implementing AML software (for CDD), but not until later this year

Flowcharts for account opening personnel and loan officers.

A checklist

Developed internal "cheat sheets" and provided to any account openers.

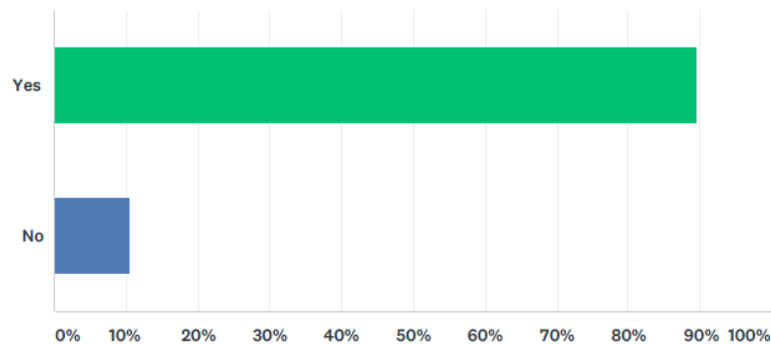
Banker's Toolbox Due Diligence Manager

Using a LexisNexis service to verify information reported on owners and control person.

Question 4

Q4 Will your existing systems (such as BSA software, Customer Information files, account opening documentation system, or other onboarding tools) provide any tools to assist with the BO process?

Answered: 48 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes	89.58%	43
No	10.42%	5
TOTAL		48

IF "YES", WHAT TOOLS?

B.O. forms on platform systems. BSA software has CDD form.

Our Core Processor (CSI) has implemented changes that allow special coding for LEC Status and BOs CIP status and date.

The core system (FIS) has provided the ability to create a customer to customer relationship. This will allow us to create a CIF record for the beneficial owner. The CIF record will retain all of the required CIP information, and conduct the initial OFAC search and the ongoing OFAC searches of all the banks CIF records.

They are providing tracking fields and producing the model form

will provide questions to answer to let opening staff know what information will be required. i.e. non-profit only needs control piece, LLC could need both. We input data and print the form, and the BO and control will be in the system for OFAC scans

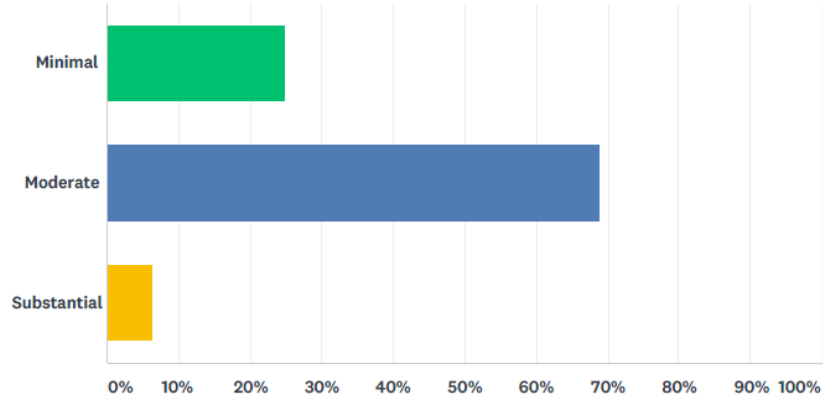
Banker's Toolbox software will have some unique onboarding questions to fulfill the due diligence portion of the new Regulation. Compliance One, the deposit and loan platform, will house the beneficial ownership piece of information collection and certification.

BSA software has data collection workflow that populates model certification form and tracks for last review, risk rates, watchlist scan, and aggregates for CTR. Core platform and retail onboarding also has similar workflow.

Question 5

Q5 How much time do you anticipate the BO determination to add to account opening?

Answered: 48 Skipped: 0



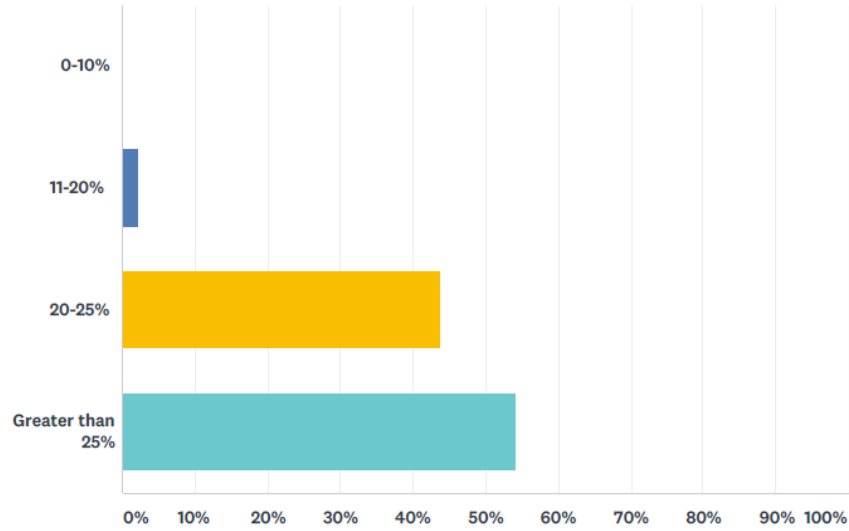
ANSWER CHOICES	RESPONSES
Minimal	25.00% 12
Moderate	68.75% 33
Substantial	6.25% 3
TOTAL	48

ANSWER CHOICES	AVERAGE ESTIMATED TIME
Minimal	5 Minutes or Less
Moderate	10-15 Minutes
Substantial	20 Minutes or More
TOTAL	

Question 6

Q6 What percentage of company ownership are you requiring to comply with the new regulation?

Answered: 48 Skipped: 0

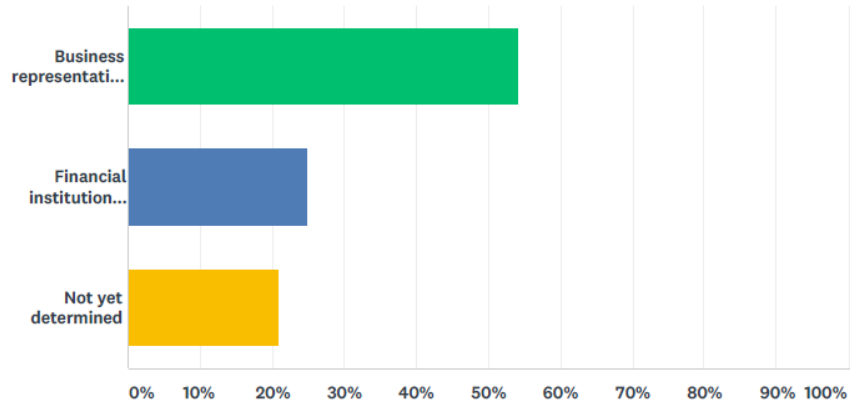


ANSWER CHOICES	RESPONSES	
0-10%	0.00%	0
11-20%	2.08%	1
20-25%	43.75%	21
Greater than 25%	54.17%	26
TOTAL		48

Question 7

Q7 Who will complete the certification form?

Answered: 48 Skipped: 0

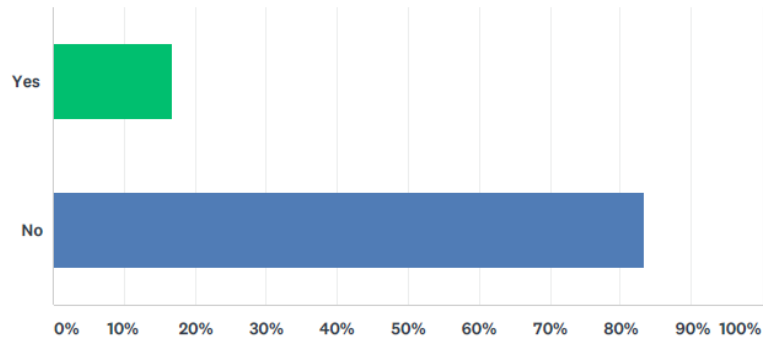


ANSWER CHOICES	RESPONSES	
Business representative opening the account	54.17%	26
Financial institution personnel	25.00%	12
Not yet determined	20.83%	10
TOTAL		48

Question 8

Q8 Will your institution make any efforts beyond the certification form to determine ownership information?

Answered: 48 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes	16.67%	8
No	83.33%	40
TOTAL		48

IF "YES", PLEASE TELL US HOW

Normal CDD process

By obtaining any Articles of Corporation, etc.

Only if the bank has conflicting information

However, if we have additional information, like obtained for a loan, we will reconcile the information to the certification form.

only if concerned they are not being truthful

If the information on the certificate does not match other information we have, we will require additional information/proof.

Not unless we suspect the information given is not correct.

We will be requiring documentation to prove ownership levels within the organization.

On the loan side we will receive proper validating documents, Board Resolutions, Tax Returns, etc. On the deposit side we will use board resolutions.

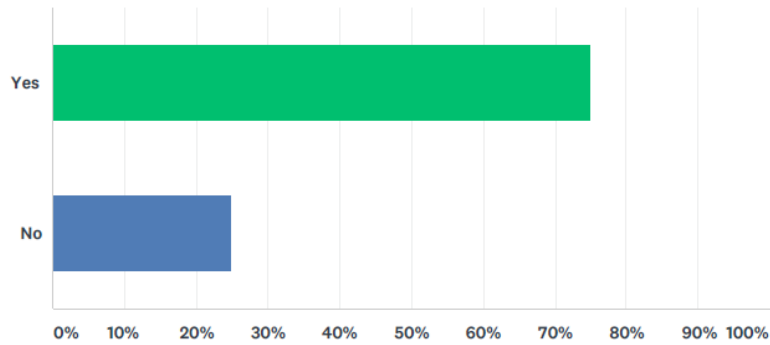
Depending on risk, may search business databases, internet, website, licensing agencies, etc

LexisNexis check on commercial loans. Onboard Advisor (Fiserv product) on consumer loan and deposit account openings.

Question 9

Q9 Do your proposed BO procedures require employees to ask more questions about the beneficial ownership of existing LEC's, such as a request for a loan extension or a request to change signers on deposit accounts?

Answered: 48 Skipped: 0

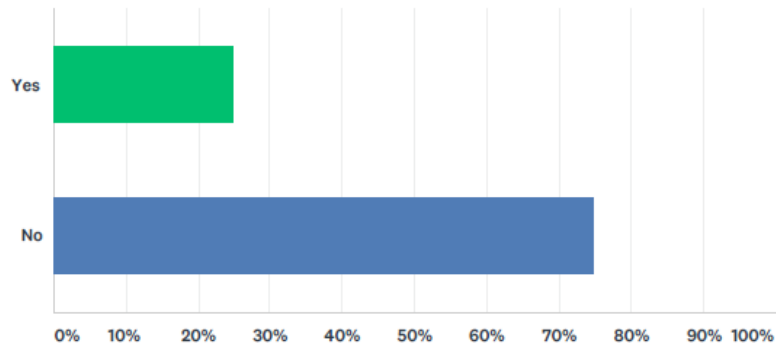


ANSWER CHOICES	RESPONSES	
Yes	75.00%	36
No	25.00%	12
TOTAL		48

Question 10

Q10 Does your institution plan to attempt to determine whether existing legal entity customers (LEC) have beneficial owners?

Answered: 48 Skipped: 0

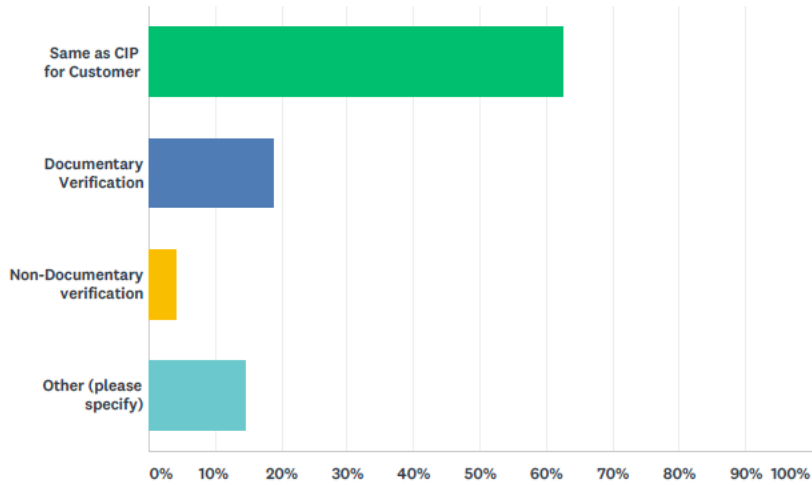


ANSWER CHOICES	RESPONSES	
Yes	25.00%	12
No	75.00%	36
TOTAL		48

Question 11

Q11 How will your institution verify the identity of beneficial owners?

Answered: 48 Skipped: 0

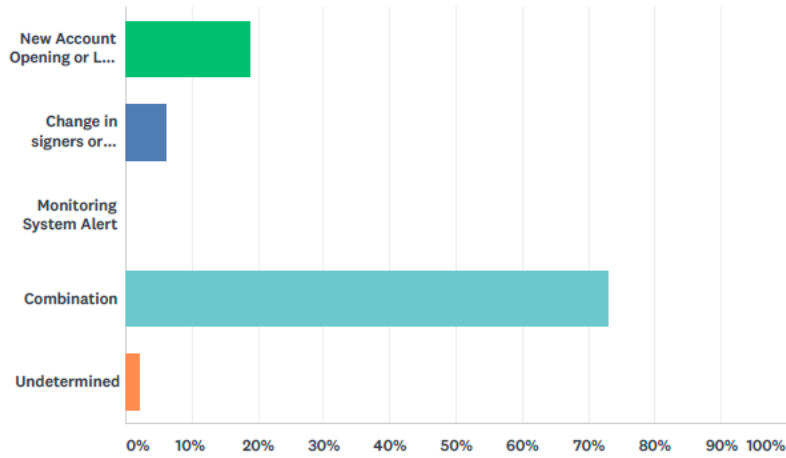


ANSWER CHOICES	RESPONSES	
Same as CIP for Customer	62.50%	30
Documentary Verification	18.75%	9
Non-Documentary verification	4.17%	2
Other (please specify)	14.58%	7
TOTAL		48

Question 12

Q12 What will your institution use as a trigger for update to certification form or customer due diligence information?

Answered: 48 Skipped: 0

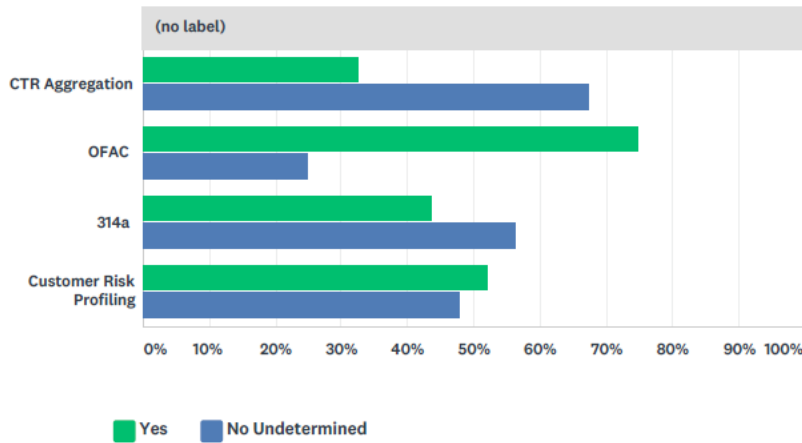


ANSWER CHOICES	RESPONSES
New Account Opening or Loan Closing	18.75% 9
Change in signers or borrowers	6.25% 3
Monitoring System Alert	0.00% 0
Combination	72.92% 35
Undetermined	2.08% 1
TOTAL	48

Question 13

Q13 Do you plan to incorporate beneficial ownership information into processes for:

Answered: 48 Skipped: 0

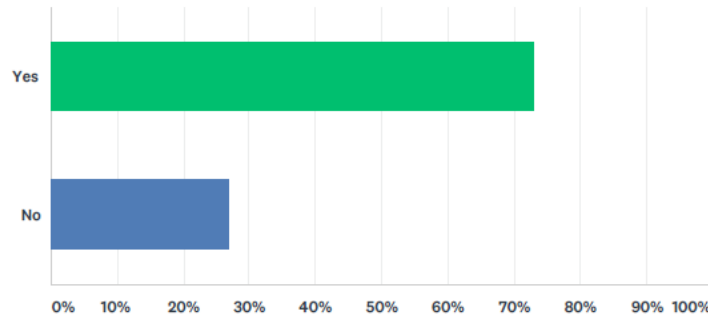


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	YES	NO UNDETERMINED	TOTAL
CTR Aggregation	32.61% 15	67.39% 31	46
OFAC	75.00% 36	25.00% 12	48
314a	43.75% 21	56.25% 27	48
Customer Risk Profiling	52.17% 24	47.83% 22	46

Question 14

Q14 Does your financial institution plan to “educate” business clients on the new beneficial ownership requirement such as by posting lobby notices similar to the current CIP notice, sending advance letters or emails to existing clients that would meet the definition of a LEC to inform them of the new requirements ?

Answered: 48 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes	72.92%	35
No	27.08%	13
TOTAL		48

IF "YES", PLEASE TELL US HOW

Posting lobby notices similar to the current CIP notice

We plan to send a statement message to existing customers that new Federal Regulations have changed and new items are needed when a change is existing account or new account is open.

A desk notice anywhere a new accout/loan is opened and a customer pamphlet

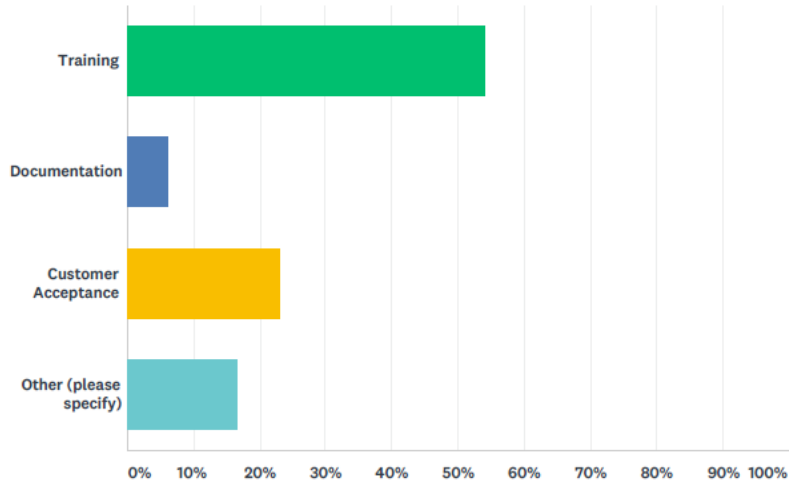
Marketing materials, brochures, newspaper release

Lobby notices and bank website

Question 15

Q15 What are the biggest challenges to implement the new rules?

Answered: 48 Skipped: 0



ANSWER CHOICES	RESPONSES	
Training	54.17%	26
Documentation	6.25%	3
Customer Acceptance	22.92%	11
Other (please specify)	16.67%	8
TOTAL		48

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