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INDUSTRY NOTICE 2018-02

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BSA Customer Due Diligence Requirements for Financial Institutions Now in Effect

The Financial Crimes Enforcement Network (FinCEN) issued a [press release](#) reminding financial institutions and their customers that its final rule, “Customer Due Diligence Requirements for Financial Institutions” (the CDD Rule), amending the Bank Secrecy Act, went into effect May 11, 2018.

The new [CDD Rule](#) clarifies, codifies, and strengthens customer due diligence rules requiring financial institutions to know and verify any individual (referred to as a beneficial owner) owning 25 percent or more of a legal entity at the time the business opens an account, as well as any individual who controls the entity, subject to certain exclusions and exemptions.

In addition, the rule requires financial institutions to have legal entity customers certify the beneficial owners for existing customers each time a loan is renewed, or a certificate of deposit is rolled over. This also applies to each instance a new formal banking relationship is established, even if the legal entity is an existing customer.

The CDD Rule has four core requirements with respect to the need to establish and maintain written policies and procedures designed to:

- identify and verify the identity of customers;
- identify and verify the identity of the beneficial owners of companies opening accounts;
- understand the nature and purpose of customer relationships to develop customer risk profiles; and
- conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information.

Prior to the implementation of this new rule, covered financial institutions were not required to know the identity of the individuals owning or controlling their legal entity customers, a situation that enabled criminals and terrorists seeking to hide illegal proceeds to access the financial system anonymously.

The beneficial ownership requirement addresses this weakness and will assist law enforcement with future financial investigations and advance U.S. compliance with international standards and commitments.

The Texas Department of Banking encourages anyone wanting more information on the rule and the new examination procedures to read the Federal Financial Institutions Examination Council (FFIEC) [press release](#) and FinCEN’s Frequently Asked Questions issued in [July 2016](#) and [April 2018](#).

Attachment:

- [Customer Due Diligence - Overview and Examination Procedures \(PDF\)](#)
- [Beneficial Ownership for Legal Entity Customers - Overview and Examination Procedures \(PDF\)](#)